

C. DUKES SCOTT
EXECUTIVE DIRECTOR

1441 Main Street, Suite 300
Columbia, SC 29201



DAN F. ARNETT
CHIEF OF STAFF

Main Line (803) 737-0800
Legal Department: (803) 737-0877

FLORENCE P. BELSER
GENERAL COUNSEL

June 30, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Haig Point Utility Company, Inc. for Approval of an
Adjustment in Rates and Charges for Water and Sewer Services
Docket No. 2005-34-W/S

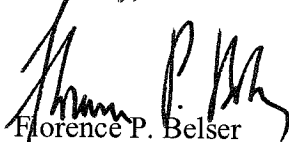
Dear Mr. Terreni:

Enclosed for filing please find the original and twenty-six (26) copies of the Direct Testimony and Exhibits of Dr. Douglas Carlisle, Dawn M. Hipp and Sharon G. Scott in the above referenced matter. Please date stamp the extra copy enclosed and return it to me via our courier.

Also, we have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,


Florence P. Belser

FPB/rmg
Enclosures

cc: G. Trenholm Walker, Esquire (w/enclosures)
John F. Beach, Esquire (w/enclosures)

174671
POSTED
0807105

RECEIVED
2005 JUN 30 PM 4:19
SC PUBLIC SERVICE
COMMISSION

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-34-W/S

RECEIVED
2005 JUN 30 PM 4:19
SC PUBLIC SERVICE
COMMISSION

IN RE: Application of Haig Point Utility)
Company, Inc. for Approval of an)
Adjustment in Rates and Charges)
For Water and Sewer Services)
_____)

CERTIFICATE OF SERVICE

This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **DIRECT TESTIMONY AND EXHIBITS OF DR. DOUGLAS CARLISLE, DAWN M. HIPPI AND SHARON G. SCOTT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

G. Trenholm Walker, Esquire
Pratt-Thomas, Epting & Walker, P.A.
Post Office Drawer 22247
Charleston, SC 29413

John F. Beach, Esquire
Ellis Lawhorne & Sims, P.A.
Post Office Box 2285
Columbia, SC 29202



Rena Grant

June 30, 2005
Columbia, South Carolina

COPY

C. DUKES SCOTT
EXECUTIVE DIRECTOR

1441 Main Street, Suite 300
Columbia, SC 29201



DAN F. ARNETT
CHIEF OF STAFF

Main Line (803) 737-0800
Legal Department: (803) 737-0877

FLORENCE P. BELSER
GENERAL COUNSEL

June 30, 2005

VIA U.S. MAIL

John F. Beach, Esquire
Ellis Lawhorne & Sims, P.A.
Post Office Box 2285
Columbia, SC, 29202


RE: Application of Haig Point Utility Company, Inc. for Approval of an
Adjustment in Rates and Charges for Water and Sewer Services
Docket No. 2005-34-W/S

Dear John:

Please find enclosed and served on you one copy of the Direct Testimony and Exhibits of the Office of Regulatory Staff witnesses Dr. Douglas Carlisle, Dawn M. Hipp and Sharon G. Scott in the above-referenced matter.

Please let me know if you have any questions.

Sincerely,


Florence P. Belser

FPB/rng

Enclosures

cc: Charles L.A. Terreni

RECEIVED
2005 JUN 30 PM 4:19
SC PUBLIC UTILITIES
COMM. DIV.

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF**

Dr. Douglas Carlisle



DOCKET NO. 2005-34-WS

**Application of Haig Point Utility
Company, Inc. for Approval of an
Adjustment in Rates and Charges for
Water and Sewer Services**

SC PUBLIC SERVICE
COMMISSION
2005 JUN 24 PM 4:17

TESTIMONY OF DOUGLAS H. CARLISLE, JR.**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-34-W/S****IN RE: HAIG POINT UTILITY COMPANY, INC.**

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Douglas H. Carlisle, Jr. I am the Economist at the South Carolina Office of Regulatory Staff. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I hold a B.A. from Brown University (1975) and an M.A. in Public Administration from the University of Virginia. I completed my course work and, while working at the United States General Accounting Office, I completed and defended my dissertation and received my Ph.D. in Government and International Relations, with a public management and policy emphasis from the University of Virginia in 1991. While at the General Accounting Office I had a variety of assignments, including audit oversight, application and compilation of budget concepts, and internal review.

When my wife and I returned to my home state, I taught American Government and State Government at Midlands Technical College in South Carolina and advised firms as a market consultant. I next worked for the State

THE OFFICE OF REGULATORY STAFF
1441 Main Street, Suite 300, Columbia, SC 29201
Post Office Box 11263, Columbia, SC 29211

1 Reorganization Commission, where, among other post-audit reviews, I reviewed
2 of how economically the State had purchased textbooks and information
3 technology and prepared for possible computer problems connected with the
4 "Year 2000 Problem." When that agency was discontinued, I next worked for the
5 South Carolina House of Representatives on higher education issues, including
6 higher education programs, especially scholarship programs.

7 An opportunity to work for the Economic Research Section of the South
8 Carolina Budget and Control Board led me to work for the State Chief Economist.
9 While working in Economic Research, I performed revenue impacts of bills and
10 contemplated legislation, constructed a higher education utility cost index,
11 calculated the Base Student Cost from labor statistics and the Consumer Price
12 Index, and performed annual surveys, such as one to determine the Southeastern
13 Average Teacher Salary. I also continued analyses and forecasts on the revenue
14 contributed for higher education scholarships from payments to the state by the
15 operator of our low-level radioactive waste disposal site, which I had begun while
16 working for the House of Representatives. I worked in the Economic Research
17 Section for five years and reported directly to the Chief Economist. During that
18 time I analyzed costs in connection with a variety of economic issues, including
19 the cost of Medicaid pharmaceuticals.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 **A.** In this testimony, I present the results of my study of Haig Point Utility
22 Company's ("HPUC") appropriate return on equity and the overall cost of capital.
23

1 **Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDATION**
2 **FOR RETURN ON EQUITY?**

3 **A.** I recommend a range between 9.1% and 10.2% with a midpoint of 9.65%
4 as a fair and reasonable return on equity for HPUC. An ROE of 9.65%, produces
5 an overall cost of capital of 8.5%. I used two methods: the Discounted Cash Flow
6 model (DCF) and Capital Asset Pricing Model (CAP-M). For both methods, I
7 used data available on water utility companies with traded common stock.

8 **Q. DOES HPUC HAVE TRADED COMMON STOCK?**

9 **A.** No. HPUC is wholly owned by Haig Point, Inc., which is owned entirely
10 by International Paper.

11 **Q. SINCE HPUC DIFFERS IN THIS RESPECT FROM THE COMPANIES IN**
12 **YOUR COMPARISON GROUP, WHY DID YOU USE THOSE**
13 **COMPANIES?**

14 **A.** There were two reasons to use those companies. First, HPUC has applied
15 for a return on equity in this proceeding. Methods for determining appropriate
16 return on equity require traded stocks. Second, it is reasonable to look at other
17 water utilities because they are in the same business and so tend to share a
18 common level of risk.

19 **Q. IF HPUC HAS NO TRADED COMMON STOCK, WHAT CAPITAL**
20 **STRUCTURE DID YOU ADOPT FOR YOUR ANALYSIS?**
21

1 **A.** In its application and response to the Office of Regulatory Staff's first data
2 request, HPUC used a hypothetical capital structure of 50% debt and 50% equity.

3 This structure appears in Exhibit DHC-1. I adopted this structure for my analysis.

4 **Q. COULD YOU HAVE USED ANOTHER CAPITAL STRUCTURE?**

5 **A.** Yes. I could have concluded that, since HPUC is ultimately entirely
6 owned by International Paper, the capital structure of International Paper is
7 appropriate. The consequence of using this capital structure, however, would
8 have been to reduce HPUC's rate base rather substantially. As Exhibit DHC-2
9 shows, International Paper has moved from a 50-50 capital structure to a 60%
10 debt and 40% equity structure. Such a structure would reduce HPUC's equity
11 return by \$7,345 as shown in Exhibit DHC-1.

12 **Q. WHY DID YOU DECIDE TO USE HPUC'S PROPOSED**
13 **HYPOTHETICAL CAPITAL STRUCTURE?**

14 **A.** I considered how well the capital structure represented the HPUC's
15 business. There were three ways to look at the capital structure.

16 One way would have considered HPUC to be all equity. In that case, the
17 return on equity would have been twice as high. The company is, after all,
18 entirely owned by another company. The equity, however, is not openly traded,
19 so it does not really make sense to analyze its return as though it were subject to
20 price adjustment through supply and demand.

21 A second way would have been to treat HPUC's capital structure as
22 though it were the parent company's. This approach would have made a certain
23 amount of sense because, although the utility is, in a sense, 100% equity and no

1 debt, the equity is held by a company with a very different capital structure, and
2 the only way that the average investor could invest in HPUC would be to buy
3 shares of International Paper. Moreover, this Commission has based its most
4 recent water/sewerage rate decision on evidence using the capital structure of a
5 parent company of a South Carolina company. It is very unlikely, however, that
6 anyone would invest in HPUC by buying International Paper stock. Furthermore,
7 the recent case decided by the Commission involved a parent and subsidiary
8 engaged in the same line of business. Additionally, I have no evidence that
9 International Paper and HPUC are indistinct or that the former deliberately
10 undercapitalized the latter.

11 By default, the proposed treatment of the capital structure seems to have
12 the fewest problems, but there is also empirical evidence for adopting it. Exhibit
13 DHC-3 shows that the average proportion of equity to capital of the companies in
14 the proxy group I have selected is 51%, so a 50-50 split seems reasonable.

15 **Q. WHY DID YOU USE MORE THAN ONE METHOD TO ESTIMATE THE**
16 **REQUIRED RETURN ON EQUITY?**

17 **A.** The DCF and CAP-M methods rely on different factors. The stock market
18 strongly influences the DCF method but interest rates strongly influence CAP-M.
19 These two methods complement each other, so I used them.

20 **Q. WHY DID YOU NOT USE OTHER METHODS?**

21 **A.** The other two methods most commonly used for return on equity, the
22 Comparable Earnings Method and the Risk Premium Method, do not apply very
23 well in this case. HPUC, is rather distinctive in four ways. First, its ultimate

parent company, International Paper, is engaged in lines of business that are not closely related to the utility's. Second, the parent company is large and might help HPUC, if financial help were needed. Third, the utility is located on an island and does not have the option of enlisting the aid of city or county water systems. Finally, the water and sewerage operations are tied to the value of the real estate that led to its creation. It would be hard to find strictly comparable companies in regard to their operations. On the other hand, the risk of investing in a water company is easier to assess, and the DCF and CAP-M methods both estimate required return on equity.

Q. HOW DOES THE DCF METHOD ESTIMATE REQUIRED RETURN ON EQUITY?

A. This method fits actual business and investment practice and economic theory because it equates the present value of expected cash flows associated with a share of stock to the current price of the stock. The Discounted Cash Flow method is directly related to present value discounting, which is used to assess whether a given investment is better than alternative investments. The formula for DCF is:

$$r = \text{DIV}/P + g$$

where r is the return of the investment; DIV is the dividend paid; P is the price of the investment; and, g is the growth rate of the investment.

Q. HOW DID YOU APPLY THIS METHOD?

1 **A.** I selected companies with traded common equity, whose primary business
2 is water distribution and sewerage and determined their most recent price and
3 dividend. Exhibit DHC-3 shows these companies.

4 Next, I determined the growth rate of the companies' stocks. Dividend
5 yields, on a diluted basis, have fallen, although dividends per share have tended to
6 rise – see Exhibit DHC-4. The history of total returns of investments in the
7 companies suggests that stock prices and stock splits have increased the overall
8 value of the companies (Exhibit DHC-3, "Total Returns" column). Current and
9 even future dividend forecasts may not be a completely reliable way of
10 forecasting total returns or return on equity. Fortunately, there is a method that
11 takes into account earnings being plowed back into a company so as to produce a
12 higher future return. For the three largest water utility companies, Value Line
13 estimates were available (Exhibit DHC-8) and used to calculate future returns in
14 Exhibit DHC-5. For two companies, Morningstar estimates were available and
15 are used in Exhibit DHC-6. Among the remaining six companies in the proposed
16 sample, not enough forecasting data was available and the alternative method
17 could not be used. For two companies, Pennichuck and BIW, there was
18 insufficient information and special circumstances; therefore they were removed
19 from the sample. The results for the remaining four companies are shown in
20 Exhibit DHC-7.

21 The Discounted Cash Flow analysis indicates that 9.1% is the appropriate
22 return on equity. There is almost no relationship between the capitalization of the
23 companies in total dollars and the recommended R.O.E. The exclusion of the two

1 smallest companies may skew this result somewhat, but that seems unlikely, since
2 there is a small correlation between the capitalization and total 10-year returns,
3 with that correlation indicating the larger the company's capitalization, the larger
4 the total return.

5 **Q. DO THE RESULTS INDICATE THAT THERE IS NO "SMALL**
6 **COMPANY PREMIUM" THAT HAIG POINT UTILITY COMPANY**
7 **SHOULD RECEIVE?**

8 **A.** Yes. The results show that larger companies have a tendency to enjoy an
9 advantage in the water utilities sector. Further evidence appears in the historical
10 returns on equity shown in Exhibit DHC-9. Although none of this evidence is
11 definitive in proving a large company premium or small company discount, it
12 does show there is no support for a small company premium. Even if there were
13 an automatic small company or other risk premium assigned to HPUC, there is a
14 good argument that, because several of the companies used to compute the DCF
15 have non-regulated and therefore riskier lines of business in addition to their
16 primary water business, there is already some allowance for additional risk built
17 into the analysis. Therefore, a small company premium would not be appropriate
18 in this case.

19 **Q. WHY DID YOU NOT ALLOW FOR FLOTATION COSTS IN YOUR**
20 **ANALYSIS?**

21 **A.** HPUC does not issue stock; hence, no flotation costs are incurred.
22

23 **Q. HOW DID YOU APPLY THE CAPITAL ASSET PRICING MODEL?**

A. The CAP-M's basic formula is:

$$K = r_f + \beta (r_m - r_f)$$

in which: K represents the capital return or return on equity; β represents a measure of risk; r_m is the return allowing for market risk; and, r_f is the risk-free rate of return.

I chose the latest auction rate for 20-year inflation-index U.S. Treasury bonds as the risk-free rate of return (Exhibit DHC-13). The reasoning in selecting this security is that HPU's complete-system basis does not factor inflation into account. Normally, such adjustments would not be a consideration; however, with a complete-system basis treating the factors going into rate base as if the system were fully in use in the year 2024, inflation becomes a significant risk factor. Since this risk-free security matures at about the same time as the complete system is assumed to come into effect, it is of a comparable investment term.

For beta (β), the measure of risk, I used the average of the eight stocks in the sample for which current Value Line betas were available – see Exhibit DHC-10. Value Line adjusts its betas to take into account their fluctuation and tendency to regress to 1, the average beta of all stocks. Since lower-risk stocks have betas below 1 and higher risk stocks have betas above 1, such an adjustment is important because otherwise, the lower risk stocks would seem less risky than they are and the higher risk stocks would seem riskier than they are.

1 For the market-based or risk-based return – I used the historical average
2 total return of the sample group of companies. Although the use of historical
3 return may seem too reliant on the past, a characteristic of regulated companies --
4 especially water utilities -- is the steadiness of their earnings and the lack of
5 competing commodities. I selected total returns because they recognize, as the
6 alternative DCF did, that part of the attraction of water companies is the promise
7 to investors that growth in earnings per share will be translated into higher future
8 dividends and share value.

9 The computation of the CAP-M, shown in Exhibit DHC-11, results in an
10 R.O.E. of 10.2%.

11 **Q. HOW DID YOU ARRIVE AT THE RECOMMENDED R.O.E.?**

12 **A.** I took my average of the ends of my range, the DCF result, 9.1%, and the
13 CAP-M result, 10.2%, which is 9.65% (Exhibit DHC-11).

14 **Q. WHY DO YOU THINK THIS IS A FAIR AND REASONABLE RESULT?**

15 **A.** This result takes into account risks from inflation and a possible
16 underweighting of growth in earnings of water companies which should more
17 than compensate for any risks that HPUC may run due to its isolated position on
18 an island. A simple check on this result is the actual R.O.E. earned by some of
19 the larger water utilities in Virginia shown in Exhibit DHC-12. The highest
20 R.O.E. earned last year was 9.32%.

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 **A.** Yes, it does.

DIRECT EXHIBITS
OF
Dr. DOUGLAS CARLISLE

DOCKET NO. 2005-34-WS

**Application of Haig Point Utility
Company, Inc. for Approval of an
Adjustment in Rates and Charges for
Water and Sewer Services**

HAIG POINT UTILITY COMPANY (HPUC): CAPITAL STRUCTURE, RATE BASE & ROE

DESCRIPTION	RATE BASE	Ratio	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$761,147	50%	7.50%	3.75%	\$28,543
Equity	\$761,147	50%	9.65%	4.83%	\$36,725
	\$1,522,294			8.58%	

HAIG POINT UTILITY COMPANY (HPUC): CAPITAL STRUCTURE, RATE BASE & ROE

DESCRIPTION	RATE BASE	Ratio	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$761,147	60%	7.50%	4.50%	\$34,252
Equity	\$761,147	40%	9.65%	3.86%	\$29,380
	\$1,522,294				
Equity under 50-50 structure					\$36,725
Equity under 60-40 structure					\$29,380
Difference					\$7,345

HAIG POINT UTILITY COMPANY (HPUC): CAPITAL STRUCTURE, RATE BASE & ROE CHANGE IN RATE BASE NECESSARY TO MEET HPUC ROE TARGET

DESCRIPTION	RATE BASE	Ratio	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$2,934,964	50%	7.50%	3.75%	\$110,061
Equity	\$2,934,964	50%	9.65%	4.83%	\$141,612
	\$5,869,927				

HPUC target revenue from equity \$141,612
Additional equity revenue requirement to meet HPUC target \$209,004

HAIG POINT UTILITY COMPANY (HPUC): CAPITAL STRUCTURE, RATE BASE & ROE CHANGE IN ROE NECESSARY TO MEET HPUC EQUITY RETURN TARGET

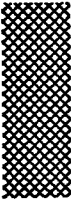
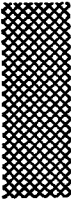
DESCRIPTION	RATE BASE	Ratio	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$761,147	50%	7.50%	3.75%	\$28,543
Equity	\$761,147	50%	37.21%	18.61%	\$141,612
	\$1,522,294				

INTERNATIONAL PAPER'S CAPITAL STRUCTURE

(\$'s millions)	2004	2003	2002	2001	2000	1999	1998
Long-term debt	\$14,132	\$13,450	\$13,042	\$12,457	\$12,648	\$7,520	\$7,697
Common shareholders' equity	\$8,254	\$8,237	\$7,374	\$10,291	\$12,034	\$10,304	\$10,738
Total	\$22,386	\$21,687	\$20,416	\$22,748	\$24,682	\$17,824	\$18,435
(%)							
Long-term debt	63%	62%	64%	55%	51%	42%	42%
Common shareholders' equity	37%	38%	36%	45%	49%	58%	58%

Source: company filing with Securities Exchange Commission

PROXY GROUP OF WATER COMPANIES

WATER COMPANY	RELATIVE SIZE	SALES (\$millions) [1]	CAPITALIZATION (\$millions) [1]	COMMON STOCK RATIO TO CAPITAL [2]	D.C.F. RETURN ON EQUITY [3]	TEN-YEAR AVERAGE
						ANNUAL TOTAL RETURNS [1]
AMERICAN STATES	LARGE	231	482	52.3%	10.0%	13.5%
AQUA AMERICA	LARGE	456	2,888	50.0%	7.6%	23.2%
CALIFORNIA WATER	LARGE	316	679	50.8%	8.0%	13.4%
ARTESIAN	MEDIUM	40	123	40.0%	11.4%	18.2%
CONNECTICUT WATER SERVICE	MEDIUM	49	198	56.0%	6.4%	13.4%
MIDDLESEX WATER	MEDIUM	72	216	44.0%	9.4%	14.4%
SJW	MEDIUM	169	425	56.0%	10.8%	18.2%
SOUTHWEST	MEDIUM	195	238	52.0%	9.5%	20.6%
YORK	MEDIUM	23	152	57.0%	8.6%	13.6%
BIW	SMALL	10	31	57.1%		17.5%
PENNICHUCK	SMALL	23	64	46.0%		19.9%
AVERAGE				51.0%	9.1%	16.9%

[1] Source for Sales, Capitalization & Total Returns: Morningstar, as of 5/31/05

[2] Sources for Common Stock to Capital: Value Line and Securities & Exchange Commission, Form 10-K

[3] Source for D.C.F. R.O.E.: Exhibits DHC-5, 6, 7&8

GROWTH PER SHARE

Docket #2005-34-W/S
Exhibit DHC-4

1 of 4

Dividend per share

Company	Year										CAGR
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
American States Water Co.	\$0.81	\$0.82	\$0.83	\$0.84	\$0.85	\$0.86	\$0.87	\$0.87	\$0.88	\$0.89	0.95%
Aqua America Inc.	\$0.29	\$0.30	\$0.32	\$0.34	\$0.36	\$0.38	\$0.40	\$0.43	\$0.46	\$0.49	5.39%
Artesian	\$0.63	\$0.90	\$0.92	\$0.97	\$0.71	\$0.73	\$0.74	\$0.77	\$0.80	\$0.83	2.80%
BIW Ltd. [1]	N/A	N/A	N/A	\$0.34	\$0.40	\$0.50	\$0.58	\$0.60	\$0.60	\$0.68	12.25%
California Water Service Group	\$1.02	\$1.04	\$1.06	\$1.07	\$1.09	\$1.10	\$1.12	\$1.12	\$1.12	\$1.13	1.03%
Connecticut Water Services Inc.	\$0.75	\$0.76	\$0.77	\$0.78	\$0.79	\$0.79	\$0.80	\$0.81	\$0.83	\$0.84	1.18%
Middlesex Water Co.	\$0.54	\$0.55	\$0.57	\$0.58	\$0.60	\$0.61	\$0.62	\$0.63	\$0.65	\$0.66	1.98%
Pennichuck Corp.	\$0.91	\$1.03	\$0.65	\$0.68	\$0.69	\$0.73	\$0.76	\$0.81	\$0.84	\$0.86	-0.56%
SJW Corp.	\$0.72	\$0.74	\$0.76	\$0.78	\$0.80	\$0.82	\$0.86	\$0.92	\$0.97	\$1.02	3.54%
Southwest Water Co.	\$0.08	\$0.09	\$0.10	\$0.10	\$0.11	\$0.14	\$0.15	\$0.16	\$0.17	\$0.19	9.04%
York Water Co.	\$0.45	\$0.45	\$0.46	\$0.47	\$0.47	\$0.49	\$0.51	\$0.53	\$0.55	\$0.59	2.75%

Notes: Compound Average Growth Rate (CAGR) = $[(E/B)^{(1/T)}]-1$

E= Ending Amount

B= Beginning Amount

T=Time in Years

American States Water, Aqua America, and California Water data was received from Value Line Standard Edition.

Connecticut Water, Middlesex Water, SJW Corp., Southwest Water, and York Water from Value Line Expanded Edition.

Artesian, BIW, and Pennichuck data from S.E.C. 10-K filings.

[1] Filed to register with S.E.C. in 2002.

GROWTH PER SHARE

Docket #2005-34-W/S
Exhibit DHC-4

2 of 4

Dividend Yield

<u>Company</u>	<u>Year</u>										
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>CAGR</u>
American States Water Co.	6.70%	5.80%	5.50%	5.00%	4.20%	4.20%	3.90%	3.60%	3.50%	3.70%	-6.0%
Aqua America Inc.	6.00%	6.20%	4.90%	3.90%	2.90%	3.00%	3.30%	2.50%	2.50%	2.30%	-9.0%
Artesian	4.80%	6.00%	5.10%	4.70%	4.20%	4.60%	4.20%	4.00%	3.90%	3.00%	-5.0%
BIW Ltd.	N/A	N/A	N/A	N/A	N/A	N/A	3.08%	2.45%	3.14%	3.44%	-3.0%
California Water Service Group	6.40%	5.80%	4.60%	4.20%	4.00%	4.30%	4.40%	4.50%	4.20%	5.00%	-2.0%
Connecticut Water Services Inc.	N/A	6.20%	6.00%	4.90%	4.20%	4.00%	3.30%	3.00%	3.00%	3.10%	-7.0%
Middlesex Water Co.	N/A	6.40%	6.30%	5.40%	4.40%	4.20%	3.80%	3.70%	3.50%	3.40%	-7.0%
Pennichuck Corp.	N/A	N/A	N/A	N/A	N/A	3.30%	2.97%	2.70%	2.81%	3.40%	1.0%
SJW Corp.	N/A	5.70%	4.30%	3.90%	3.00%	2.10%	3.00%	3.40%	3.50%	3.00%	-7.0%
Southwest Water Co.	N/A	3.40%	2.70%	2.30%	1.80%	2.00%	1.70%	1.50%	1.70%	1.50%	-9.0%
York Water Co.	N/A	N/A	N/A	N/A	N/A	5.16%	3.45%	3.70%	3.02%	3.05%	-10.0%

Notes: Compound Average Growth Rate (CAGR) = $[(E/B)^{(1/T)}]-1$

E= Ending Amount

B= Beginning Amount

T=Time in Years

American States Water, Aqua America, and California Water data was received from Value Line Standard Edition.

Connecticut Water, Middlesex Water, SJW Corp., Southwest Water, and York Water from Value Line Expanded Edition.

Artesian, BIW, and Pennichuck data from S.E.C. 10-K filings.

GROWTH PER SHARE

Docket #2005-34-W/S
Exhibit DHC-4

3 of 4

Company

Book Value Per Share (BVPS)

	Year										CAGR
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
American States Water Co.	\$10.29	\$11.01	\$11.24	\$11.48	\$11.82	\$12.74	\$13.22	\$14.05	\$13.97	\$14.98	3.8%
Aqua America Inc.	\$3.28	\$3.59	\$3.79	\$4.28	\$4.57	\$5.13	\$5.53	\$5.81	\$7.12	\$7.85	9.1%
Artesian	\$9.89	\$9.72	\$9.85	\$10.23	\$10.91	\$10.81	\$11.25	\$14.48	\$13.51	\$13.89	3.5%
BIW Ltd. [1]	N/A	N/A	N/A	N/A	N/A	N/A	\$4.62	\$3.51	-\$0.03	\$5.04	2.9%
California Water Service Group	\$11.72	\$12.22	\$13.00	\$13.38	\$13.43	\$12.90	\$12.95	\$13.12	\$14.44	\$15.65	2.9%
Connecticut Water Services Inc.	\$7.76	\$8.03	\$8.26	\$8.52	\$8.61	\$8.92	\$9.25	\$10.06	\$10.46	\$10.94	3.5%
Middlesex Water Co.	\$5.76	\$5.85	\$6.00	\$6.80	\$6.95	\$6.98	\$7.11	\$7.39	\$7.60	\$8.38	3.8%
Pennichuck Corp. [1]	\$11.32	\$11.78	\$12.07	\$14.22	\$12.80	\$13.95	\$12.96	\$13.27	\$11.40	\$2.50	-14.0%
SJW Corp.	\$11.16	\$12.62	\$14.04	\$15.06	\$15.75	\$15.80	\$16.35	\$16.80	\$18.21	\$20.22	6.1%
Southwest Water Co.	N/A	\$2.52	\$2.65	\$2.83	\$3.20	\$3.61	\$4.03	\$4.49	\$5.14	\$6.48	11.1%
York Water Co.	\$4.27	\$4.83	\$4.97	\$5.10	\$5.16	\$5.33	\$5.69	\$5.85	\$6.08	\$6.98	5.0%

Notes: Compound Average Growth Rate (CAGR) = $[(E/B)^{(1/T)}]-1$

E= Ending Amount

B= Beginning Amount

T=Time in Years

[1] Pennichuck and BIW have had acquisition and other issues; Pennichuck is currently trying to prevent the City of Nashua, NH from taking its Nashua operation by eminent domain.

GROWTH PER SHARE

Docket #2005-34-W/S
Exhibit DHC-4

4 of 4

Company

Earnings per Share (EPS)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>CAGR</u>
American States Water Co.	\$1.03	\$1.13	\$1.04	\$1.08	\$1.19	\$1.28	\$1.35	\$1.34	\$0.78	\$1.05	0.2%
Aqua America Inc.	\$0.39	\$0.40	\$0.46	\$0.53	\$0.56	\$0.62	\$0.68	\$0.72	\$0.76	\$0.85	8.1%
Artesian	\$0.70	\$0.69	\$0.71	\$0.97	\$0.97	\$0.78	\$1.05	\$1.14	\$0.96	\$1.08	4.4%
BIW Ltd.	N/A	N/A	N/A	\$2.48	\$0.56	\$0.44	\$3.41	\$0.49	\$0.49	\$0.30	-29.7%
California Water Service Group	\$1.17	\$1.51	\$1.83	\$1.45	\$1.53	\$1.31	\$0.94	\$1.25	\$1.21	\$1.46	2.2%
Connecticut Water Services Inc.	\$0.96	\$0.97	\$1.00	\$1.02	\$1.03	\$1.09	\$1.13	\$1.12	\$1.15	\$1.16	1.9%
Middlesex Water Co.	\$0.68	\$0.60	\$0.67	\$0.71	\$0.76	\$0.51	\$0.66	\$0.73	\$0.61	\$0.73	0.7%
Pennichuck Corp.	N/A	\$0.81	\$0.75	\$1.20	\$1.12	\$1.56	\$1.52	\$0.97	\$0.52	\$0.76	-0.1%
SJW Corp.	\$1.18	\$1.92	\$1.60	\$1.51	\$1.73	\$1.17	\$1.53	\$1.56	\$1.83	\$1.74	4.0%
Southwest Water Co.	N/A	\$0.16	\$0.22	\$0.27	\$0.32	\$0.40	\$0.44	\$0.41	\$0.47	\$0.24	0.4%
York Water Co.	\$0.46	\$0.53	\$0.54	\$0.53	\$0.53	\$0.63	\$0.65	\$0.60	\$0.70	\$0.73	4.7%

Notes: Compound Average Growth Rate (CAGR) = $[(E/B)^{(1/T)}]-1$

E= Ending Amount

B= Beginning Amount

T=Time in Years

DISCOUNTED CASH FLOW, LARGE COMPANIES USING "PLOWBACK METHOD" ^[1]

	AMERICAN STATES	AQUA AMERICA	CALIFORNIA WATER
ANNUAL DIVIDENDS [2]	\$0.89	\$0.49	\$1.13
RECENT PRICE PER SHARE	\$24.96	\$25.90	\$33.30
YIELD = DIVIDEND/PRICE	3.57%	1.89%	3.39%
VALUELINE FORECAST, 2010: DPS	\$0.96	\$0.65	\$1.24
VALUELINE FORECAST, 2010: EPS	\$2.10	\$1.20	\$2.15
VALUELINE FORECAST, 2010: BVPS	\$17.65	\$9.70	\$19.55
PLOWBACK RATIO= 1-(DIV/BVPS)	54.29%	45.83%	42.33%
RETURN ON BOOK EQUITY=EPS/BVPS	11.90%	12.37%	11.00%
G= PLOWBACK * R.O.B.E.	6.46%	5.67%	4.65%
R.O.E.=YIELD + G	10.02%	7.56%	8.05%

DPS=Dividends per Share

EPS=Earnings per Share

BVPS=Book Value per Share

Source: Value Line, Standard edition (electronic edition)

[1] See Richard A. Brealey and Steward C. Myers, *Capital Investment and Valuation*, p.58.

DISCOUNTED CASH FLOW, "MEDIUM" COMPANIES USING "PLOWBACK METHOD" [3]

	CONN. WATER SERVICE	SJW
STOCK PRICE 200-DAY MOVING AVG.	\$25.32	\$38.13 [1]
EARNINGS PER SHARE, TRAILING 12-MO.	\$1.24	\$2.77 [1]
BOOK EQUITY PER SHARE [BVPS]	\$11.02	\$19.99 [2]
DIVIDENDS PER SHARE	\$0.90	\$1.29 [2]
PLOWBACK RATIO = $1 - \text{DIV} / \text{EPS}$	27.6%	53.3% [2]
RETURN ON BOOK EQUITY = EPS / BVPS	11.3%	13.9% [2]
G = PLOWBACK RATIO * RET. ON BK. EQITY	3.1%	7.4%
CURRENT DIV / CURRENT SHARE PRICE	3.3%	3.4% [1]
ROE = YIELD $[\text{DIV} / \text{P}] + \text{G}$	6.4%	10.8%

Sources:

[1] Source: Morningstar, on-line accessed , 6-26-05

[2] ValueLine historical data, projected using compound annual growth rate, See Exhibit DHC-

[3] See Richard A. Brealey and Steward C. Myers, *Capital Investment and Valuation*, p.58.

DISCOUNTED CASH FLOW, "MEDIUM" COMPANIES

	EARNINGS PER YR. ESTIMATES	DIVIDEND YIELD	DCF
ARTESIAN [1]	8.5%	2.9%	11.4%
BIW	N/A		
CONNECTICUT WATER SERVICE [2]	N/A		
MIDDLESEX WATER [1]	6.0%	3.4%	9.4%
PENNICHUCK	N/A		
SJW [2]	N/A		
SOUTHWEST [1]	6.8%	2.7%	9.5%
YORK [1]	7.0%	1.6%	8.6%
AVERAGE	7.1%		

[1] Source: Morningstar, on-line accessed , 6-21&26-05; earnings per yr. are for 5-yr forward

[2] See Exhibit DHC-6

[illegible]

Andre J. Costanza

April 29, 2005

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	80
Earnings Predictability	70

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢. Next earnings report due late July. Quarterly earnings may not sum due to change in share count.

(B) Dividends historically paid in early-March, June, September, December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for splits.

© 2005 Value Line Publishing, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind.

<p>(A) Primary shares outstanding through '96: diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from</p>	<p>disc. operations: '96, 2¢. Next earnings report due early February. (B) Dividends historically paid in early March, June, Sept. & Dec. = Div'd. reinvestment plan available (5% discount).</p>	<p>(C) In millions, adjusted for stock splits.</p>
--	---	--

© 2005, Value Line Publishing, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

CALIFORNIA WATER										NYSE-CWT										RECENT PRICE 35.12										P/E RATIO 22.7 (Trailing: 21.0; Median: 17.0)										RELATIVE P/E RATIO 1.21										DIV'D YLD 3.2%										VALUE LINE																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
TIMELINESS 3 Raised 8/6/04										SAFETY 2 Lowered 8/11/95										TECHNICAL 2 Raised 1/21/05										BETA .75 (1.00 = Market)										2007-09 PROJECTIONS										High Price Gain Return										Low 25 35 (NII) 3%										-30% -4%										Insider Decisions										M A M J J A S O N										to Buy 0 0 1 0 0 0 0 0 0 0 0										Options 0 0 0 0 0 0 0 0 0 0 0										to Sell 0 0 0 0 0 0 0 0 0 0 1										Institutional Decisions										10/20/04 10/20/04 10/20/04										to Buy 42 40 38										to Sell 19 30 28										Hld'g (000) 3785 4047 3994										Percent 4.5										shares 3										traded 1.5										% TOT. RETURN 12/04										THIS STOCK VL ARTHL INDEX										1 yr. 42.9 17.2										3 yr. 66.0 43.9										5 yr. 57.2 76.6										Target Price Range										2007 2008 2009										64										48										40										32										24										20										16										12										8										6																																																																																																																																																																																																																	
2007-09 PROJECTIONS										Ann'l Total										High Price Gain Return										Low 25 35 (NII) 3%										-30% -4%										Insider Decisions										M A M J J A S O N										to Buy 0 0 1 0 0 0 0 0 0 0 0										Options 0 0 0 0 0 0 0 0 0 0 0										to Sell 0 0 0 0 0 0 0 0 0 0 1										Institutional Decisions										10/20/04 10/20/04 10/20/04										to Buy 42 40 38										to Sell 19 30 28										Hld'g (000) 3785 4047 3994										Percent 4.5										shares 3										traded 1.5										% TOT. RETURN 12/04										THIS STOCK VL ARTHL INDEX										1 yr. 42.9 17.2										3 yr. 66.0 43.9										5 yr. 57.2 76.6										Target Price Range										2007 2008 2009										64										48										40										32										24										20										16										12										8										6																																																																																																																																																																																																																																															
CAPITAL STRUCTURE as of 9/30/04										Total Debt \$272.8 mill. Due in 5 Yrs \$111.0 mill.										LT Debt \$271.9 mill. LT Interest \$17.5 mill.										(LT interest earned: 4.2x; total int. cov.: 3.8x)										Pension Assets-12/03 \$88.4 mill.										Oblig. \$63.2 mill.										Pfd Stock \$3.5 mill. Pfd Div'd \$.15 mill.										139,000 shares. 4.4% cumulative (\$25 par)										Common Stock 18,345,496 shs.										as of 11/14/04										MARKET CAP: \$650 million (Small Cap)										CURRENT POSITION										2002 2003 9/30/04										(SMILL)										Cash Assets 1.1 2.9 33.1										Other 41.9 40.6 48.7										Current Assets 43.0 43.5 81.8										Accts Payable 23.7 23.8 26.8										Debt Due 24.8 7.3 9.9										Other 43.0 32.5 37.3										Current Liab. 91.5 63.6 65.0										Fix. Chg. Cov. 250% 218% 201%										ANNUAL RATES										Past Past Est'd '01-'03										of change (per sh) 10 Yrs. 5 Yrs. to '07-'09										Revenues 3.0% 2.0% 3.5%										"Cash Flow" 2.0% -1.5% 6.5%										Earnings -5.5% -6.5% 10.0%										Dividends 2.0% 1.0% 1.0%										Book Value 2.5% 1.0% 5.0%										QUARTERLY REVENUES (\$mill.)										Cal- Mar.31 Jun.30 Sep.30 Dec.31 Full										endar Year										2001 47.0 67.0 76.3 56.5 246.8										2002 51.7 69.2 81.4 60.9 263.2										2003 51.3 68.0 88.2 69.6 277.1										2004 60.2 88.9 97.1 73.8 320										2005 65.0 90.0 105 85.0 345										EARNINGS PER SHARE A-E										Cal- Mar.31 Jun.30 Sep.30 Dec.31 Full										endar Year										2001 01 .34 39 20 .94										2002 12 43 50 20 1.25										2003 d.05 30 .53 41 1.21										2004 08 59 59 .32 1.58										2005 .09 .55 .70 .36 1.70										QUARTERLY DIVIDENDS PAID B-F										Cal- Mar.31 Jun.30 Sep.30 Dec.31 Full										endar Year										2001 .279 279 279 279 1.12										2002 28 28 28 28 1.12										2003 281 281 281 281 1.12										2004 283 283 283 283 1.13										2005										BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (461,200 customers) in 98 communities in California, Washington, and New Mexico. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '03: residential, 70%; business, 18%; public authorities, 5%; industrial, 4%; other, 3%. '03 reported deprec. rate: 2.2%. Has about 815 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.										er. Purchased water can cost five times more than internally produced supplies. We look for growth to pick up as the year progresses and as wells are restored. Infrastructure costs ought to limit profits out to late decade. The costs of well and pipeline upkeep has risen and, with the threat of bioterrorism looming, should increase over the next few years. Such costs will force Cal to issue more debt and stock in order to pay the bill. These shares are not for everyone ... They are ranked 3 (Average) for Timeliness. Moreover, they offer little 3- to 5-year gains appeal, as the 20% surge in share price since our October review discounts any gains we envision at this time. Cal shares are already trading slightly above our 2007-2009 Target Price Range. ... but should interest those looking for some income. CWT offers an above-average dividend yield. Investors should also find solace in the fact that the board of directors has increased the company's annual payout in each of the last 37 years. The stock also carries a 2 (Above Average) rank for Safety.										Andre J. Costanza										January 28, 2005									

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; Q2 '02, 8¢. Next earnings report due late April.

(B) Dividends historically paid in mid-Feb., May, Aug., Nov. ■ Div'd reinvestment plan available

(C) Incl. deferred charges. In '03: \$38.0 mill, \$2.25/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	90
Earnings Predictability	65

© 2005, Value Line Publishing, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product. (C) May not total due to change in shares.

To subscribe call 1-800-833-0046.

HISTORICAL RETURN ON EQUITY

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
American States	10.17%	10.15%	9.48%	9.62%	10.33%	10.36%	10.45%	9.88%	5.59%	8.03%	9.41%
Aqua America	12.23%	12.42%	12.49%	13.57%	11.93%	13.27%	13.28%	13.90%	12.38%	11.37%	12.68%
Artesian	N/A	N/A	5.46%	9.77%	9.75%	7.39%	9.79%	9.95%	7.40%	8.18%	8.46%
BIW	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.41%	4.11%	5.26%
California Water	N/A	N/A	N/A	11.29%	11.75%	10.82%	7.71%	9.81%	8.95%	9.89%	10.03%
Connecticut Water	12.69%	12.37%	12.25%	12.15%	12.38%	12.44%	12.39%	11.59%	11.23%	10.93%	12.04%
Middlesex Water	12.74%	10.95%	12.15%	11.53%	11.83%	7.59%	9.93%	10.68%	8.61%	9.65%	10.57%
Pennichuck Corp.	N/A	N/A	9.54%	11.44%	10.24%	13.43%	12.21%	7.67%	4.12%	6.03%	9.22%
SJW Corp.	10.83%	16.23%	12.01%	11.57%	11.07%	7.40%	9.54%	9.40%	11.67%	11.28%	11.10%
Southwest Water Co.	4.98%	6.46%	8.33%	9.99%	15.56%	12.09%	12.12%	10.30%	10.30%	4.48%	9.46%
York Water	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average	10.6%	11.4%	10.2%	11.2%	11.6%	10.5%	10.8%	10.4%	8.7%	8.4%	

Overall 10-yr. Average: 9.82%
Overall 5-yr. Average: 9.44%
Correlation to capitalization in Exhibit DHC-3: 53.59%

Source: Morningstar, as of 6/15/05

**BETA (β) -- STOCK INVESTMENT
RISK FOR PROXY GROUP**

American States	0.70
Aqua America	0.75
Artesian	N/A
BIW	N/A
California Water	0.75
Connecticut Water	0.65
Middlesex Water	0.65
Pennichuck Corp.	N/A
SJW Corp.	0.55
Southwest Water Co.	0.65
York Water	0.55

Average **0.66**
Source: ValueLine, Standard and Expanded Editions

CAPITAL ASSET PRICING AND ROE SUMMARY

$$K = r_f + \beta (r_m - r_f)$$

K = capital requirement / R.O.E.

r_f = Risk-Free Rate of Return

r_m = Risk for Market Rate of Return

β = measurement of stock's risk, see Exhibit DHC-10

r_f	β	r_m	r_f
0.02	0.656	0.169	0.044

$$.02 + 656 * (.0169 - .044) =$$

10.2% CAP-M ROE
9.1% DCF ROE

Recommended R.O.E. = 9.65%

SOME LARGER VIRGINIA PRIVATE WATER COMPANIES WITH POSITIVE RETURNS

COMPANY	CUSTOMERS	R.O.E	Basis
Dale Service Corporation	21,349	9.32%	R.O.E.
United Water Virginia	1,924	8.72%	modified R.o.R.
Land'or Utility Company	2,520	3.20%	modified R.o.R.
Massanutten Pub. Svc. Corp.	3,910	6.30%	modified R.o.R.
Virginia American Water Company	45,961	6.52%	R.O.E.

*Source: Virginia State Corporation Commission; customers as of 6-24-2004;
returns as of 12-31-04*

Recent Treasury Note and Bond Auction Results

Security	Term	Type	Issue Date	Maturity Date	Interest Rate %	Yield %	Price Per \$100	CUSIP
5-YEAR	11-MONTH	NOTE	6/15/2005	6/15/2010	3.625	3.705	99.637908	912828DX5
9-YEAR		NOTE	6/15/2005	5/15/2015	4.125	3.99	101.091049	912828DV9
2-YEAR		NOTE	5/31/2005	5/31/2007	3.5	3.615	99.780029	912828DW7
3-YEAR		NOTE	5/16/2005	5/15/2008	3.75	3.821	99.800526	912828DT4
5-YEAR		NOTE	5/16/2005	5/15/2010	3.875	3.89	99.932269	912828DU1
10-YEAR		NOTE	5/16/2005	5/15/2015	4.125	4.22	99.231425	912828DV9
2-YEAR	9-MONTH	NOTE	5/2/2005	4/30/2007	3.625	3.65	99.951975	912828DS6
*5-YEAR		NOTE	4/29/2005	4/15/2010	0.875	1.2	99.624026	912828CZ1
5-YEAR		NOTE	4/15/2005	4/15/2010	4	4.046	99.793649	912828DR8
*9-YEAR		NOTE	4/15/2005	1/15/2015	1.625	1.75	99.020489	912828DH0
2-YEAR		NOTE	3/31/2005	3/31/2007	3.75	3.86	99.790219	912828DQ0
5-YEAR		NOTE	3/15/2005	3/15/2010	4	4.08	99.641447	912828DP2
9-YEAR	11-MONTH	NOTE	3/15/2005	2/15/2015	4	4.504	95.996638	912828DM9
2-YEAR		NOTE	2/28/2005	2/28/2007	3.375	3.498	99.764391	912828DN7
3-YEAR		NOTE	2/15/2005	2/15/2008	3.375	3.47	99.731536	912828DK3
5-YEAR		NOTE	2/15/2005	2/15/2010	3.5	3.618	99.464692	912828DL1
10-YEAR		NOTE	2/15/2005	2/15/2015	4	4.049	99.600335	912828DM9
2-YEAR		NOTE	1/31/2005	1/31/2007	3.125	3.245	99.769428	912828DJ6
*20-YEAR	11-MONTH	BOND	1/31/2005	1/15/2025	2.375	2	107.552	912810FR4
5-YEAR		NOTE	1/18/2005	1/15/2010	3.625	3.731	99.520732	912828DG2
*10-YEAR		NOTE	1/18/2005	1/15/2015	1.625	1.725	99.09064	912828DH0
2-YEAR		NOTE	12/31/2004	12/31/2006	3	3.12	99.769076	912828DF4
5-YEAR		NOTE	12/15/2004	12/15/2009	3.5	3.55	99.772769	912828DE7
9-YEAR		NOTE	12/15/2004	11/15/2014	4.25	4.15	100.80029	912828DC1
2-YEAR	6-MONTH	NOTE	11/30/2004	11/30/2006	2.875	2.945	99.865006	912828DD9
3-YEAR		NOTE	11/15/2004	11/15/2007	3	3.09	99.744019	912828AN0
5-YEAR		NOTE	11/15/2004	11/15/2009	3.5	3.51	99.954506	912828DB3
10-YEAR		NOTE	11/15/2004	11/15/2014	4.25	4.28	99.75801	912828DC1
2-YEAR		NOTE	11/1/2004	10/31/2006	2.5	2.59	99.825825	912828CY4
*5-YEAR		NOTE	10/29/2004	4/15/2010	0.875	0.95	99.625501	912828CZ1
5-YEAR	9-MONTH	NOTE	10/15/2004	10/15/2009	3.375	3.49	99.476542	912828CX6
*9-YEAR		NOTE	10/15/2004	7/15/2014	2	1.885	101.525704	912828CP3
2-YEAR		NOTE	9/30/2004	9/30/2006	2.5	2.62	99.767659	912828CW8
5-YEAR		NOTE	9/15/2004	9/15/2009	3.375	3.439	99.708	912828CV0
9-YEAR		NOTE	9/15/2004	8/15/2014	4.25	4.195	100.436	912828CT5
2-YEAR		NOTE	8/31/2004	8/31/2006	2.375	2.494	99.769	912828CU2
3-YEAR	11-MONTH	NOTE	8/16/2004	8/15/2007	2.75	2.842	99.737	912828CR9
5-YEAR		NOTE	8/16/2004	8/15/2009	3.5	3.52	99.909	912828CS7
10-YEAR		NOTE	8/16/2004	8/15/2014	4.25	4.27	99.838	912828CT5
2-YEAR		NOTE	8/2/2004	7/31/2006	2.75	2.797	99.909	912828CQ1

* Denotes an inflation-indexed security

Source: U.S. Department of Treasury - <http://www.publicdebt.treas.gov/AI/OFNtebond>

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
DAWN HIPP**



DOCKET NO. 2005-34-WS

**Application of Haig Point Utility
Company, Inc. for Approval of an
Adjustment in Rates and Charges for
Water and Sewer Services**

TESTIMONY OF DAWN M. HIPPI**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-34-WS****IN RE: HAIG POINT UTILITY COMPANY, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Program Specialist in the Water/Wastewater Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I am a 1992 graduate of Moorhead State University where I earned a B.S. in Political Science.

I have over eight years of experience in hazardous waste regulation. From 1996 to 1999, I worked for Laidlaw Environment Services in Saukville, Wisconsin, as an accounts receivable supervisor and then as a facility accounting supervisor for Laidlaw's Government Services Division. In this role, I facilitated electronic

1 commerce including EDI transfer of order and EFT payments with customers. I
2 also developed, implemented, and enhanced government billing and waste
3 tracking systems. From 1999-2003, I worked for Safety-Kleen Corporation and
4 Clean Harbors Environmental Services, Inc. in Columbia, SC as an operations
5 manager in the Government Services Division. In this role, I managed the
6 financial, operations and all regulatory aspects of field offices nationwide serving
7 Department of Defense hazardous waste removal contracts. I was accountable for
8 the viability of 14 government contracts yielding \$12 million in revenue annually.
9 In September 2004, I joined ORS as the Program Specialist for Water and
10 Wastewater Department. I am a member of the American Water Works
11 Association ("AWWA") and the South Carolina Section of the American Water
12 Works Association ("SC-AWWA").

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. The purpose of my testimony is to set forth the ORS staff findings relative to Haig
16 Point Utility Company, Inc.'s ("HPUC") compliance with the Public Service
17 Commission ("PSC") rules and regulations, test-year and complete system
18 revenue calculations, financial assurance requirements, and site evaluations. I
19 will also provide an overview of the "complete system" methodology and its
20 impact on the rate payers of Haig Point Plantation.

21 **Q. WHAT IS THE "COMPLETE SYSTEM" METHODOLOGY?**

22 A. This rate making methodology proposed by HPUC assumes that the water and
23 wastewater systems are fully utilized. This method has been used in other states

1 to set rates for new developments. In this particular case, HPUC will assume that
2 all system costs will be borne by 753 equivalent residential customers ("ERC")
3 rather than the 185 ERC's served during the test year.

4 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**
5 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

6 A. Yes, my testimony and the attached exhibits detail my findings and
7 recommendations.

8 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
9 **TESTIMONY AND EXHIBITS.**

10 A. I used ORS audit results and information provided by HPUC in its Application,
11 Data Request responses and information gathered during the ORS facility site
12 inspection. I also reviewed HPUC's financial statements and performance bond
13 documents submitted to the Public Service Commission. Further, I consulted
14 with and used information from South Carolina Department of Health and
15 Environmental Control ("DHEC"), the Environmental Protection Agency
16 ("EPA"), and the National Association of Regulatory Utility Commissioners
17 ("NARUC").

18 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATION, SERVICE**
19 **TYPES AND CUSTOMER BASE SERVICED BY HPUC.**

20 A. HPUC is a public utility providing potable and irrigation water supply service and
21 wastewater collection/treatment services. As a subsidiary of Haig Point, Inc.,
22 HPUC is a Class B water/wastewater utility. HPUC's service area is located on
23 Daufuskie Island in Beaufort County. HPUC's business office is located in

1 Montvale, New Jersey. The current water supply is provided by two wells and is
2 metered to all customers. HPUC provides wastewater treatment for Haig Point
3 Plantation residents and commercial customers through biological treatment and
4 sprayfield discharge. According to HPUC's customer records for the test year
5 ending June 30, 2004, water and sewer services were provided to 210 residential
6 and 24 commercial customers. Likewise, HPUC provided separately metered
7 irrigation services to 157 commercial and residential customers.

8 **Q. PLEASE EXPLAIN EXHIBIT DMH-1 OF YOUR REPORT.**

9 A. Exhibit DMH-1, pages 1 through 3, provides a summary of the services provided
10 by HPUC based on the Business Office Compliance Review completed by ORS.
11 The Business Office Compliance Review consists of a review of HPUC's office
12 records to determine compliance with Commission rules and regulations.

13 HPUC utilizes a customized computer database to capture customer account
14 billing transactions. Customer billing complaints are maintained by the New
15 Jersey office in a Customer Log which details the customer name, account
16 number, date of complaint, type of complaint and account resolution. Service
17 complaints, according to HPUC, are phoned into the Haig Point Property Owners
18 Association ("POA") and routed to a HPUC employee, on Daufuskie Island, for
19 resolution. No auditable records are maintained by HPUC on service complaints.
20 HPUC does not charge late fees or customer deposits. In addition, HPUC does
21 not disconnect customers for non-payment. ORS's audit of HPUC billing
22 transactions noted few delinquent accounts in the customer data base. Invoice
23 adjustments and payment applications are automated, accurate and timely.

1 Via conference call, I met with HPUC staff on June 29, 2005, to review all
2 Business Compliance Review and Facility Site audit results documented by ORS.
3 Both parties had opportunity to provide feedback and suggestions to assist HPUC
4 in their efforts toward compliance with all PSC Rules and Regulations. However,
5 the Business Office Compliance Review revealed the following deficiencies:

6 1. All records and reports required by this Commission are not located in SC as
7 required pursuant to 26 S.C. Code Regs. 103-510 and 103-710. HPUC
8 maintains all reports in Montvale, New Jersey. Requested copies of records to
9 complete the Business Office Review were provided by HPUC via e-mail, fax
10 and mail.

11 2. No service complaint records are available as required pursuant to 26 S.C.
12 Code Regs. 103-516 and 103-716. HPUC did not maintain detailed
13 information to afford analysis of the utility's procedures, actions and
14 resolutions to specific customer service complaints as required by 26 S.C.
15 Code Regs. 103-516, 103-538, 103-716 and 103-738. Complaints related to
16 customer billing are maintained, by the New Jersey business office, in a log
17 format in compliance with Commission regulations.

18 3. HPUC does not maintain the following as required by Commission
19 regulations:

20 i. Rates, rules/regulations, maps and plans available for public inspection
21 within the service territory;

22 ii. Procedures assuring that complainants are made aware that HPUC is
23 under Commission jurisdiction;

1 4. HPUC does not file notices of DHEC rule violations with PSC; and

2 5. The bond amount is insufficient.

3 **Q. PLEASE EXPLAIN EXHIBIT DMH-2 OF YOUR REPORT.**

4 A. Exhibit DMH-2, consisting of four pages, is a summary of the water supply and
5 wastewater collection and treatment services inspected by ORS on June 6, 2005.

6 **Water Supply**

7 HPUC currently provides adequate water supply and distribution services to its
8 residential and commercial customers. Construction is near completion on Well
9 #3 which will allow HPUC to meet the fire flow requirements of Beaufort
10 County. In addition, HPUC is constructing a 125,000 gallon elevated storage tank
11 required by SC DHEC under Consent Order 89-29-DWP. According to HPUC
12 operations personnel, Well #3 and the elevated storage tank are slated for
13 completion by the end of July 2005. Well #1 and Well #2 are in good condition
14 and operating adequately. The water, as observed by ORS, was free of air,
15 distinct color and had no observable odor. Potable water and irrigation
16 consumption is metered to all customers. HPUC provides fire protection services
17 to residential and commercial customers. During the ORS site inspection, a small
18 leak was noted on Tank #1.

19 **Wastewater Collection and Treatment Systems**

20 HPUC provides wastewater treatment under a SC DHEC no discharge permit
21 (ND0062286). Treated wastewater is discharged to the 27-hole Haig Point Golf
22 Course and driving range based on watering demand. The wastewater collection
23 system includes 28 lift stations. During the ORS inspection, all the wastewater

1 collection and treatment systems were operating adequately and in accordance
2 with DHEC rules and regulations. There is neither construction activity being
3 proposed by HPUC for its wastewater collection and treatment systems nor is
4 there an immediate need for an upgrade or reconstruction of the existing systems.

5 **Q. PLEASE EXPLAIN EXHIBIT DMH-3 OF YOUR REPORT.**

6 A. Exhibit DMH-3 provides an overview of HPUC's bonding structure. The purpose
7 of a utility's performance bond is to provide sufficient financial assurance to both
8 the customer and the Commission in the event that the utility fails to provide safe
9 and adequate service. The performance bond amount should be of a level to
10 support expenses of that utility for a period of time. Pursuant to 26 S.C. Code
11 Regs. 103-512.3.1 and 103-712.3.1, "the amount of bond shall be based on, but
12 not limited to, the total amount of the following categories of expenses for twelve
13 months: Operation and Maintenance Expenses, General and Administrative
14 Expenses, Taxes Other Than Income Taxes, Income Taxes, and Debt Service
15 including Interest Expenses." The bond amount is also set forth in S.C. Code Ann.
16 Section 58-5-720 (Supp. 2004). The Commission's statutes and regulations state
17 bond amounts must range from an amount not less than \$100,000 and not more
18 than \$350,000.

19 HPUC has current performance bonds for utility water and wastewater operations
20 in the form of insurance sureties underwritten by Travelers Casualty and Surety
21 Company of America on file with the PSC in the amount of \$20,000 each (Exhibit
22 DMH-4). The sureties were filed with the PSC on June 4, 2004 and contain no
23 expiration date.

1 Upon reviewing the expenses from the test year and using the criteria set forth in
2 26 S.C. Code Regs. 103-512.3.1 and 103-712.3.1, I determined that the face
3 amount of HPUC's bond should be \$350,000.00 for water operations and
4 \$350,000.00 for wastewater operations (Exhibit DMH-3). HPUC's adjusted
5 bonding criteria expenses, taking into account the complete system methodology,
6 were \$398,103.00 for water operations and \$274,653.00 for wastewater
7 operations. Combined bonding criteria expenses totaled \$672,756.00 for the
8 complete system. ORS recognizes that the rate making approach requested by
9 HPUC places the burden of risk on the real estate developer which owns HPUC,
10 as they will earn lower revenues until the development is completely built out. In
11 order to protect the ratepayers, in the event the utility becomes non-viable, ORS
12 recommends to increase the bond requirement for HPUC to \$350,000 for both
13 water and wastewater operations according to the requirements of S.C. Code Ann.
14 Section 58-5-720.

15 **Q. PLEASE DESCRIBE THE ORS TEST YEAR REVENUE ANALYSIS AND**
16 **SUBSEQUENT RESULTS.**

17 A. ORS completed a thorough review of HPUC's customer water consumption and
18 base monthly charge ("BMC") revenue calculations for the test year. No
19 adjustments to test year service revenue are recommended by ORS. However,
20 ORS proposes to remove all revenues generated by the collection of Availability
21 Fees as of the end of the test year from Rate Base. In addition, ORS proposes to
22 eliminate Availability Fees from Operating Revenue by using the complete
23 system methodology. Since the complete system reflects a system that is fully

utilized, no customers will be paying an availability fee. Ms. Sharon Scott details the specifics to this adjustment in her direct testimony. The current tariff is structured for monthly customer billing; however, HPUC bills water, wastewater and irrigation customers on a quarterly basis in arrears. The proposed statement of rates included in the Application clarifies the intent of HPUC to bill on a quarterly basis. HPUC bills all customers in accordance with the rate structure approved by this Commission.

HPUC's uncollectible percentage is approximately 2% which ORS finds to be acceptable.

Q. PLEASE DESCRIBE THE ORS REVENUE ANALYSIS OF THE PROPOSED RATES USING THE COMPLETE SYSTEM METHODOLOGY.

A. HPUC has petitioned this Commission to consider establishing rates for their customers based on a "complete system" methodology. This rate setting method is commonly used in New Jersey, New York and Florida by developer-owned utilities when initially establishing a rate to serve its customers. Upon completion of the elevated storage tank and Well #3, HPUC's system will be able to support 753 ERC's. Using the total number of customers the system is capable of serving allows rates to be reflective of a customer's proportionate share of operating and capital costs and results in lower rates. ORS recognizes risk is shifted from the customer to the real estate developer using this methodology, and HPUC will not earn its full revenue requirement until all 753 ERC's are connected to the system. ORS is concerned about the financial viability of the utility during build-out of

1 the system. ORS will monitor HPUC routinely to ensure that preventative
2 maintenance on plant and equipment continues and no system degradation occurs
3 should HPUC experience revenue shortfalls. As a safeguard, ORS has proposed
4 to increase the bond amounts to \$350,000 for water and \$350,000 for sewer.
5 ORS reviewed HPUC's revenue adjustments for the proposed complete system.
6 HPUC's water and sewer revenue adjustments are based on the connection of all
7 customers and an average customer consumption of 204 gallons per day.
8 Historically, this customer consumption is an accurate estimate based on test year
9 statistics. In addition, HPUC's complete system pro forma expense increases are
10 based on factors derived by HPUC from the difference between current customer
11 connections/ERC's and complete system connections/ERC's or current water
12 consumption and complete system water consumption. Verification of HPUC's
13 expense factors was performed by ORS and each factor was found to be an
14 appropriate method for "grossing-up" expenses using the complete system
15 method of rate making. Exhibit DMH-5 provides a comparison of HPUC's test
16 year customers/ERC's, average water consumption and test year revenue to
17 complete system customers/ERC's, average water consumption and complete
18 system revenue.

19 ORS used consumption data provided by HPUC and verified during the audit for
20 calculation accuracy. In addition, ORS used HPUC's current and proposed rates
21 as reflected in the Application for these calculations.

22 **Q. IS THE COMPLETE SYSTEM METHODOLOGY RECOMMENDED BY**
23 **ORS?**

1 Yes, ORS recognizes the need of HPUC to balance the need to recover sufficient
2 revenues to support operations and maintenance, provide fair allocation of plant
3 and equipment costs to customers, and encourage efficient usage of water
4 resources. ORS acknowledges that this type of rate making methodology has
5 been used in several states including New Jersey, New York and Florida. Ms.
6 Sharon Scott will provide, for informational purposes, pro-forma analysis
7 prepared using traditional cost allocation methods. While the complete system
8 approach is innovative, it also balances the public interest by:

- 9 1) Ensuring that current customers are paying only their fair share of a
10 fully developed system;
11 2) Providing incentive for the developer-owned utility to expedite system
12 build-out in order to achieve an acceptable rate of return; and
13 3) Shifting risk for development of the system from the customer to the
14 utility.

15 If the risk associated with this approach is offset by a performance bond
16 commensurate with the risk, and ORS observes no measurable decline in service,
17 then the needs of the public have been met.

18 **Q. DO YOU HAVE ANY COMMENTS RELATED TO HPUC'S PROPOSED**
19 **CONSUMPTION RATES AND INCLINING BLOCK RATE DESIGN?**

20 A. HPUC's current rate structure does not encourage residential or commercial
21 customer water conservation. An average water customer in the United States
22 uses approximately 6,000 gallons of water per month. Currently, HPUC
23 customers are allowed 7,500 gallons of residential water use (non-irrigation) per

1 month for a flat rate of \$15.00. By applying a consumption charge to all water
2 usage, HPUC's proposed rate structure promotes efficient use of water resources.
3 By implementing an inclining block rate structure for irrigation services, metered
4 customers will be charged an increased fee per 1,000 gallon based on reasonable
5 usage thresholds. Again, the goal of this approach is to encourage water
6 conservation.

7 **Q. PLEASE EXPLAIN EXHIBIT DMH-6 OF YOUR REPORT.**

8 A. Exhibit DMH-6 is a summary of the current PSC approved rates for HPUC and
9 HPUC's proposed rates.

10 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

11 A. Yes it does.

DIRECT EXHIBITS

OF

DAWN HIPP

DOCKET NO. 2005-34-WS

**Application of Haig Point Utility
Company, Inc. for Approval of an
Adjustment in Rates and Charges for
Water and Sewer Services**

REPORT OF THE WATER/WASTEWATER DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-34-WS

HAIG POINT UTILITY COMPANY, INC.

DAWN M. HIPP TESTIMONY

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
DMH-1	Business Office Compliance Review	ORS
DMH-2	Water and Wastewater System Inspection Reports	ORS
DMH-3	Performance Bond Requirement	ORS
DMH-4	HPUC Insurance Sureties	HPUC
DMH-5	Test Year vs. Complete System Comparison	ORS
DMH-6	Summary of Proposed Rates	ORS

REVIEW OF WATER AND WASTEWATER SERVICES
HAIG POINT UTILITY COMPANY, INC.
DOCKET: 2005-34-WS

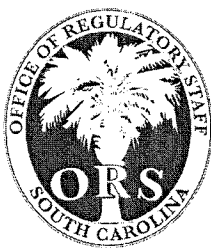
On June 6, 2005¹, personnel from the Office of Regulatory Staff (“ORS”) of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer deposit records of Haig Point Utility Company, Inc. (“HPUC”) in preparation for this rate case. HPUC currently provides water supply services, wastewater collection and treatment services to commercial and residential customers in Haig Point Plantation community on Daufuskie Island in Beaufort County, South Carolina. As of May 1, 2005, HPUC provides water and sewer services to 234 commercial and residential customers and metered irrigation services to 157 commercial and residential customers.

The ORS Consumer Services Department received no consumer complaints regarding HPUC during the test. Since the Notice of Filing was mailed to HPUC’s customers, the Public Service Commission has received one Petition to Intervene and no Letters of Protest.

ORS determined HPUC provides adequate water provision and wastewater collection and treatment services and is operating its facilities in compliance with all DHEC rules, regulations and consent orders.

The following 2 pages provide a summary of the ORS Business Compliance Audit results.

¹ HPUC does not have a business office in South Carolina. ORS conducted the Business Office Audit on books and records provided by HPUC’s New Jersey office on June 3, 2005. All records were e-mailed, faxed and mailed to Columbia, SC for review.



ORS BUSINESS OFFICE COMPLIANCE REVIEW: DOCKET 2005-34-WS

Utility: Haig Point Utility Company, Inc. ("HPUC")

Inspector: Dawn Hipp

Office: PO Box 23527, Hilton Head Island, SC 29925

Utility Type: Water and Wastewater Utility

Date: 06/6/05¹

Company Representative: Tom Connor, Judy Cruz, Eric Johanson

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.		X	All PSC records and reports housed at 3 Paragon Drive, Montvale, NJ office. Records were provided upon request.
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.		X	Complaint log used by HPUC sufficiently documents complaints regarding customer billing. However, complaint records are not maintained on service complaints. Service complaints are relayed to HPUC by the Property Owners Association.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.		X	Rate and rules/regulations not available at HPUC office at Haig Point, Daufuskie Island. Updated maps and plans are available, and ORS has updated maps of system.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.		X	No established procedure identified by HPUC. Per discussions with HPUC, a statement may be added to quarterly billings.
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	NA	NA	HPUC does not charge deposits.
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		HPUC bills quarterly in arrears for water, sewer and irrigation services. Bills are issued on day 90 of the quarter. Availability fees are billed yearly in January of the new year.
7	Bill forms in accordance with R.103-532 and R.103-732.	X		HPUC phone numbers clearly identified. Availability fee invoices are in a different format.
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		HPUC does not charge late fees
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	NA	NA	HPUC does not discontinue service and does not intend to discontinue service to customers.
10	Notices sent to customers prior to termination in accordance with R.103-535 and 103-735.	NA	NA	HPUC does not terminate service.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.		X	NOV's are not being filed with PSC or ORS. NOV provided with HPUC data request responses.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.	X		HPUC lists emergency phone number on monthly bills. Customers also call the Property Owners Association (POA) for immediate reporting of service issues. POA contacts HPUC for resolution.
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	NA	NA	No unscheduled interruption of service has occurred on systems.
14	Utility advised the Commission of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours, in accordance with Rule 103-512 and 103-712.	X		Received by ORS 06/28/05.
15	Company verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the company has at present time.	NA	NA	234 water/sewer customers (215 residential and 19 commercial); 157 irrigation customers
17	Company has a current performance bond on file with the Commission. Amount of bond: \$20,000.00 water; \$20,000 sewer		X	HPUC currently has an insurance certificate on file with the PSC dated June 2004. The stated bond amount of \$20,000 for water and \$20,000 for sewer is insufficient per R.103-512 and 103-712.

1) The ORS Business Office Compliance Review was completed through a review of records at the Haig Point Utility Company, Inc. office on Daufuskie Island and records received via mail/fax/e-mail from the NJ office of Haig Point, Inc.



ORS WATER SYSTEM INSPECTION: DOCKET 2005-34-WS

Utility Name: Haig Point Utility Company, Inc. Number of Customers: 234 Res/Com

System Type: 2 operating wells; 1 well under construction Date Inspected: 06/06/05

Inspected By: D. Hipp/W. Morgan

Subdivision Name: Haig Point Community

Company Representative: Eric Johanson/Bill Donaldson

Type of Plant: 2 operating wells; 2 - 5,000 gallon hydro pneumatic above ground storage tanks
1 well under construction; 1 - 125,000 gallon elevated storage tank under construction

Extent of Treatment: Operating wells chlorinated by chlorine gas

System Components Inspected	Specific Type	Total #	PSI	Capacity	Compliance		Comments
					Yes	No	
Well Sites	Bored	3	45-60	500 gpm	X		Well #1 & #2 were constructed in 1985; Well #3 under construction. Well depth: #1=243 ft; #2=192 ft; #3=200 ft.
Pump Houses	Steel/Wood/Masonite	3			X		Pump houses in good repair
Storage Tank(s)							
	Pressurized	2		5,000 g	X		Tanks recently painted and in good condition.
	Non-Pressurized						
	Overhead	1		125,000	NA		Tank under construction. Completion expected in late July 2005
Chlorinator	Gas cylinders	2			X		Cylinders chained and monitoring system working.
Meters					X		Meters have been upgraded recently
Fire Hydrants					X		
Electrical Wiring					X		
Exposed Pipe					X		No exposed piping on system
Air in Lines					X		Water observed at Well #1 and Well #2
Sand in Water					X		None observed
Clarity of Water	Clear				X		No observable color
Leaks		2				X	Tank #2 leak on check valve outside fence.
Odor	None				X		No observable odor
Condition of Access Road:	Good				X		
New Construction	Yes - occupancy rate is low						

ORS WATER SYSTEM INSPECTION: DOCKET 2005-34-WS

Frequency Checked by Licensed Operator: Daily

Location of Utility Office: Haig Point Utility, Inc. WWTF

Subdivision provided wastewater service by this Utility: Yes

Comments:

- 1) Back up power source readily available at each well house using gas generators.
- 2) Well and elevated storage tank under construction at time of ORS inspection. Expected completion per HPUC staff is late July 2005. Construction of elevated storage tank required by SC DHEC under Consent Order 89-29-DWP.
- 3) Quality of drinking water evaluated by observation. ORS has not received any customer complaints related to drinking water quality.
- 4) As provided in the Application, HPUC's latest SC DHEC Public Water Sanitary Survey Report completed in November 2004 provided the drinking water system an Overall Rating of Needs Improvement.
- 5) Well house #1 and #2 signage lacking company name and emergency phone number.



ORS WASTEWATER SYSTEM INSPECTION: DOCKET 2005-34-WS

Utility Name: Haig Point Utility Company, Inc. Number of Customers: 234 Res/Com

System Type: Collection and Treatment System Date Inspected: 06/06/05

Inspected By: D.Hipp/W. Morgan Subdivision Name: Haig Point Community

Company Representative: Eric Johanson and Bill Donaldson

Type of Plant: Collection and Biological Treatment System with Spray field

Extent of Treatment: Biological Treatment with Sprayfield Discharge to Haig Point Golf Club using a no discharge permit # ND0062286

System Components Inspected	Yes	No
Chlorinator Gas cylinders	X	
Other Chemicals in Use		X
Aerators ¹	X	
Plant fenced and Locked	X	
Warning Signs Visible ²	X	
Holes in Fence		X
Erosion of Dikes	X	
Odor		X
Grass Cut	X	
Duck Weed or Algae ³	X	
Grease Build Up ⁴	X	
Debris inside of Plant ⁵	X	
Color of Effluent: Clear		
Lift Stations: Number 28	X	
Failure Warning System	X	
Electric Wiring Acceptable	X	
Overflows		X
Condition of Access Road: Good	NA	NA
New Construction	X	

Frequency Checked by Licensed WWTF Operator: Daily

Location of Utility Office: Utility is housed at WWTF

Location of System: Collection and Treatment System located on Daufuskie Island, Beaufort County

Subdivision provided water by this Utility: Yes

ORS WASTEWATER SYSTEM INSPECTION: DOCKET 2005-34-WS

Comments: Collection and treatment system discharges treated wastewater to Haig Point Golf Club (27 hole course and driving range) based on watering demand.

All lift stations on HPUC system were operating properly with good flow.

WWTF is not under any DHEC enforcement action. SC DHEC Wastewater Treatment Plant Facility Evaluation Inspection Report dated 01/27/04 lists the overall rating of the WWTF as satisfactory. SC DHEC NPDES Compliance Inspection Report dated 06/04/04 indicates the WWTF is operating in a satisfactory manner under permit ND0062286.

Footnotes:

1. WWTF has 10 aerators operating at timed intervals. On day of inspection, HPUC staff was conducting sampling in lagoon system and 1 aerator was operating in the system.
2. Warning signs were visible on the plant fence but lacked company name and emergency phone number.
3. Heavy duck weed covering ½ of the lagoon system was observed during the inspection. Duck weed accumulated in the chlorine contact chamber. HPUC staff skims the lagoon at regular intervals to remove the duck weed build up.
4. Grease build up was observed in the influent/bar screen area. Influent flows through bar screen and grinder pump prior to flowing into equalization area of lagoon.
5. Some debris has accumulated inside fenced area. HPUC is encouraged to contain debris from bar screen in a marked trash receptacle.

HAIG POINT UTILITY COMPANY, INC.
2005-34-WS
PERFORMANCE BOND REQUIREMENT EXHIBIT
FOR THE TEST YEAR ENDING JUNE 30, 2004

Haig Point Utility Company, Inc. - Water			
Bond Value Components	Per Books	As Adjusted	HPUC Proposed Increase
O & M Expense	\$87,464.00	\$303,778.00	\$303,778.00
G & A Expense	\$51,929.00	\$32,179.00	\$35,718.00
Taxes	\$0.00	\$13,629.00	\$15,111.00
Income Tax	-\$14,799.00	\$0.00	\$22,778.00
Debt Service/Interest Expense	\$0.00	\$20,718.00	\$20,718.00
Bond Value Requirement	\$124,594.00	\$370,304.00	\$398,103.00
Haig Point Utility Company, Inc. - Sewer			
Bond Value Components	Per Books	As Adjusted	HPUC Proposed Increase
O & M Expense	\$97,923.00	\$64,412.00	\$64,412.00
G & A Expense	\$21,525.00	\$18,251.00	\$25,645.00
Taxes	\$0.00	\$5,269.00	\$8,366.00
Income Tax	\$24.00	\$0.00	\$139,862.00
Debt Service/Interest Expense	\$0.00	\$36,368.00	\$36,368.00
Bond Value Requirement	\$119,472.00	\$124,300.00	\$274,653.00
Haig Point Utility Company, Inc. - Combined Operations			
Bond Value Components	Per Books	As Adjusted	HPUC Proposed Increase
O & M Expense	\$185,387.00	\$368,190.00	\$368,190.00
G & A Expense	\$73,454.00	\$50,430.00	\$61,363.00
Taxes	\$0.00	\$18,898.00	\$23,477.00
Income Tax	-\$14,775.00	\$0.00	\$162,940.00
Debt Service/Interest Expense	\$0.00	\$57,086.00	\$57,086.00
Bond Value Requirement	\$244,066.00	\$494,604.00	\$672,756.00
Current Performance Bond Structure (1)			
Bond Value	Expiration Date		
Travelers Casualty and Surety Company of America (Water Surety)	\$20,000.00		
Travelers Casualty and Surety Company of America (Wastewater Surety)	\$20,000.00		
Total Financial Assurance	\$40,000.00		

(1) As reported in Surety Bond dated 06/09/04 filed with PSC on 06/11/2004.

HAIG POINT, INC.
3 PARAGON DRIVE
MONTVALE, NJ 07645

June 11, 2004

Mr. William O. Richardson
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, SC 29210

***Re: \$20,000 Performance Bond - Water
\$20,000 Performance Bond - Sewer***

Dear Mr. Richardson:

Enclosed are two executed utility bonds for Haig Point Utility Company. If you need additional information, please contact me at (201) 307-4718.

Sincerely,



Thomas F. Connor
Controller

TFC/ceb
Enclosure

INSURANCE CERTIFICATE

PERFORMANCE BOND

Bond No. 64S104330507

Haig Point Utility
KNOW ALL MEN BY THESE PRESENTS, that Company, Inc., being duly qualified
to do business in the State of South Carolina, designated as "principal", and that Travelers Casualty and Surety
designated as "surety", are held and firmly bound unto the Public Service Commission of South
Carolina, designated as "obligee", in the penal sum of ^{Twenty thousand} and no/100(\$20,000) Dollars, for the payment of
which well and truly to be made, the principal binds itself, its successors and assigns, jointly and
severally, firmly by these presents.

WHEREAS, in accordance with the provisions of S.C. Code Ann. 58-5-720 (1976),
which requires the principal to furnish a bond with sufficient surety, to the satisfaction of the obligee,
conditioned as provided in said 58-5-720, and

WHEREAS, the principal is seeking a certificate of public convenience and necessity
and approval of a schedule of rates for water and/or sewer service in areas shown on operating area
maps filed with the obligee, and

WHEREAS, this bond, when approved by the obligee, conditioned as in said
58-5-720, is to cover any and all liability, which may arise as a result of the principal failing to
provide adequate and sufficient service within its service area as prescribed in 58-5-720, and

WHEREAS, the obligee, upon notice and hearing, shall have the right to declare all or
any part of the bond forfeited upon a determination by the obligee that the principal shall have will
fully failed to provide such service as prescribed above, without just cause or excuse, and that such
failure has continued for an unreasonable length of time, and

*Haig Point Utility Company, Inc. a wholly owned subsidiary of International Paper Company

WHEREAS, the liability under the terms of this bond is hereby extended so as to include any fines or penalties imposed or assessed by the obligee against the principal under the provisions of S.C. Code Ann. 58-5-710 (1976), and

WHEREAS, in the event that any judicial action or proceedings are initiated with respect to this bond, the parties hereby agree that the venue thereof shall be Richland County, State of South Carolina, and

WHEREAS, the bond shall become effective on the date executed by the principal and surety, and shall continue from year to year unless the obligations of the principal and surety under this bond are expressly released by the obligee in writing, and

WHEREAS, the obligee upon notice and opportunity to the principal and surety to be heard, may order that the face amount of this bond to be changed within the limits set forth in S.C. Code Ann. 58-5-720 (1976).

NOW, THEREFORE, in testimony whereof, said principal has hereunto subscribed its name and said principal has caused this instrument to be signed by its duly authorized officers, and its corporate seal to be hereunto affixed, this 9th day of June, 2004.

Haig Point Utility Company, Inc.
COMPANY

BY [Signature]

Travelers Casualty and Surety Company of America
INSURANCE COMPANY

[Signature]
BY L. M. Bryant, Attorney-in-Fact

IN PRESENCE OF:

Mary Katherine [Signature]

ACKNOWLEDGEMENT OF SURETY

TENNESSEE :
STATE OF ~~SOUTH CAROLINA~~

COUNTY OF SHELBY

On June 9, 2004 L.M. Bryant came

before me personally, and to me known, and who being by me duly sworn, did depose and state: That he is the Attorney in-Fact of Travelers Casualty and Surety Company of America, the Corporation which executed the foregoing instrument, that he knows the seal of said Corporation, that the seal affixed to the said instrument is such Corporate seal; that it was so affixed by the order of the Board of Directors of said Corporation, and that he/she signed his/her name to said instrument by like order.

Sworn to before me this

9th day of June, 20 04

Ellen B. Rittenberg (L.S.)
Notary Public Ellen B. Rittenberg

My Commission Expires:

May 17, 2005

(Affix seal if not South Carolina Notary Public)

POWER OF ATTORNEY AND CERTIFICATE OF AUTHORITY OF ATTORNEY(S)-IN-FACT

KNOW ALL PERSONS BY THESE PRESENTS, THAT TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, corporations duly organized under the laws of the State of Connecticut, and having their principal offices in the City of Hartford, County of Hartford, State of Connecticut, (hereinafter the "Companies") hath made, constituted and appointed, and do by these presents make, constitute and appoint: James S. Dickey, L.M. Bryant, Teresa M. Sheppard, W. Joseph Lammell, of Memphis, Tennessee, their true and lawful Attorney(s)-in-Fact, with full power and authority hereby conferred to sign, execute and acknowledge, at any place within the United States, the following instrument(s): by his/her sole signature and act, any and all bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking and any and all consents incident thereto and to bind the Companies, thereby as fully and to the same extent as if the same were signed by the duly authorized officers of the Companies, and all the acts of said Attorney(s)-in-Fact, pursuant to the authority herein given, are hereby ratified and confirmed.

This appointment is made under and by authority of the following Standing Resolutions of said Companies, which Resolutions are now in full force and effect:

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary may appoint Attorneys-in-Fact and Agents to act for and on behalf of the company and may give such appointee such authority as his or her certificate of authority may prescribe to sign with the Company's name and seal with the Company's seal bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking, and any of said officers or the Board of Directors at any time may remove any such appointee and revoke the power given him or her.

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President may delegate all or any part of the foregoing authority to one or more officers or employees of this Company, provided that each such delegation is in writing and a copy thereof is filed in the office of the Secretary.

VOTED: That any bond, recognizance, contract of indemnity, or writing obligatory in the nature of a bond, recognizance, or conditional undertaking shall be valid and binding upon the Company when (a) signed by the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary and duly attested and sealed with the Company's seal by a Secretary or Assistant Secretary, or (b) duly executed (under seal, if required) by one or more Attorneys-in-Fact and Agents pursuant to the power prescribed in his or her certificate or their certificates of authority or by one or more Company officers pursuant to a written delegation of authority.

This Power of Attorney and Certificate of Authority is signed and sealed by facsimile (mechanical or printed) under and by authority of the following Standing Resolution voted by the Boards of Directors of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, which Resolution is now in full force and effect:

VOTED: That the signature of each of the following officers: President, any Executive Vice President, any Senior Vice President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Secretary, and the seal of the Company may be affixed by facsimile to any power of attorney or to any certificate relating thereto appointing Resident Vice Presidents, Resident Assistant Secretaries or Attorneys-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and any such power of attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached.

IN WITNESS WHEREOF, TRAVELERS CASUALTY AND SURETY COMPANY
CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY

signed by their Senior Vice President and their corporate seals to be hereto affixed this 8th day of February 2003.

STATE OF CONNECTICUT

}SS. Hartford

COUNTY OF HARTFORD

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY



By 
George W. Thompson
Senior Vice President

On this 8th day of February, 2003 before me personally came GEORGE W. THOMPSON to me known, who, being by me duly sworn, did depose and say: that he/she is Senior Vice President of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, the corporations described in and which executed the above instrument; that he/she knows the seals of said corporations; that the seal affixed to the said instrument are such corporate seals; and that he/she executed the said instrument on behalf of the corporations by authority of his/her office under the Standing Resolutions thereof.



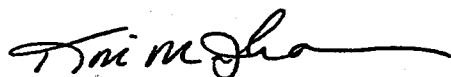
Marie C Tetreault
My commission expires June 30, 2006 Notary Public
Marie C. Tetreault

CERTIFICATE

I, the undersigned, Assistant Secretary of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, stock corporations of the State of Connecticut, DO HEREBY CERTIFY that the foregoing and attached Power of Attorney and Certificate of Authority remains in full force and has not been revoked; and furthermore, that the Standing Resolutions of the Boards of Directors, as set forth in the Certificate of Authority, are now in force.

Signed and Sealed at the Home Office of the Company, in the City of Hartford, State of Connecticut. Dated this 9th day of June, 2004.



By 
Kori M. Johanson
Assistant Secretary, Bond



IMPORTANT DISCLOSURE NOTICE OF TERRORISM INSURANCE COVERAGE

On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act of 2002 (the "Act"). The Act establishes a short-term program under which the Federal Government will share in the payment of covered losses caused by certain acts of international terrorism. We are providing you with this notice to inform you of the key features of the Act, and to let you know what effect, if any, the Act will have on your premium.

Under the Act, insurers are required to provide coverage for certain losses caused by international acts of terrorism as defined in the Act. The Act further provides that the Federal Government will pay a share of such losses. Specifically, the Federal Government will pay 90% of the amount of covered losses caused by certain acts of terrorism which is in excess of Travelers' statutorily established deductible for that year. The Act also caps the amount of terrorism-related losses for which the Federal Government or an insurer can be responsible at \$100,000,000,000.00, provided that the insurer has met its deductible.

Please note that passage of the Act does not result in any change in coverage under the attached policy or bond (or the policy or bond being quoted). Please also note that no separate additional premium charge has been made for the terrorism coverage required by the Act. The premium charge that is allocable to such coverage is inseparable from and imbedded in your overall premium, and is no more than one percent of your premium.

INSURANCE CERTIFICATE

PERFORMANCE BOND

Bond No. 64SI04330508

KNOW ALL MEN BY THESE PRESENTS, that Haig Point Utility Company, Inc., being duly qualified to do business in the State of South Carolina, designated as "principal", and that Travelers Casualty and Surety Company of America designated as "surety", are held and firmly bound unto the Public Service Commission of South Carolina, designated as "obligee", in the penal sum of Twenty thousand and no/100 (\$20,000) Dollars, for the payment of which well and truly to be made, the principal binds itself, its successors and assigns, jointly and severally, firmly by these presents.

WHEREAS, in accordance with the provisions of S.C. Code Ann., 58-5-720 (1976), which requires the principal to furnish a bond with sufficient surety, to the satisfaction of the obligee, conditioned as provided in said 58-5-720, and

WHEREAS, the principal is seeking a certificate of public convenience and necessity and approval of a schedule of rates for water and/or sewer service in areas shown on operating area maps filed with the obligee, and

WHEREAS, this bond, when approved by the obligee, conditioned as in said 58-5-720, is to cover any and all liability, which may arise as a result of the principal failing to provide adequate and sufficient service within its service area as prescribed in 58-5-720, and

WHEREAS, the obligee, upon notice and hearing, shall have the right to declare all or any part of the bond forfeited upon a determination by the obligee that the principal shall have willfully failed to provide such service as prescribed above, without just cause or excuse, and that such failure has continued for an unreasonable length of time, and

*Haig Point Utility Company, Inc. a wholly owned subsidiary of International Paper Company

WHEREAS, the liability under the terms of this bond is hereby extended so as to include any fines or penalties imposed or assessed by the obligee against the principal under the provisions of S.C. Code Ann., 58-5-710 (1976), and

WHEREAS, in the event that any judicial action or proceedings are initiated with respect to this bond, the parties hereby agree that the venue thereof shall be Richland County, State of South Carolina, and

WHEREAS, the bond shall become effective on the date executed by the principal and surety, and shall continue from year to year unless the obligations of the principal and surety under this bond are expressly released by the obligee in writing, and


WHEREAS, the obligee upon notice and opportunity to the principal and surety to be heard, may order that the face amount of this bond to be changed within the limits set forth in S.C. Code Ann., 58-5-720 (1976).

NOW, THEREFORE, in testimony whereof, said principal has hereunto subscribed its name and said principal has caused this instrument to be signed by its duly authorized officers, and its corporate seal to be hereunto affixed, this 9th day of June, 2004.

Haig Point Utility Company, Inc.
COMPANY

BY 

Travelers Casualty and Surety Company of America
INSURANCE COMPANY


BY L. M. Bryant, Attorney-in-Fact

IN PRESENCE OF:

Mary Katherine Smith

ACKNOWLEDGEMENT OF SURETY

TENNESSEE
STATE OF ~~SOUTH~~ CAROLINA

COUNTY OF SHELBY

On June 9, 2004 L.M. Bryant came

before me personally, and to me known, and who being by me duly sworn, did depose and state: That he is the Attorney in-Fact of Travelers Casualty and Surety Company of America, the Corporation which executed the foregoing instrument, that he knows the seal of said Corporation, that the seal affixed to the said instrument is such Corporate seal; that it was so affixed by the order of the Board of Directors of said Corporation, and that he/she signed his/her name to said instrument by like order.

Sworn to before me this

9th day of June, 20 04

Ellen B. Rittenberg (L.S.)
Notary Public Ellen B. Rittenberg

My Commission Expires:

May 17, 2005

(Affix seal if not South Carolina Notary Public)

POWER OF ATTORNEY AND CERTIFICATE OF AUTHORITY OF ATTORNEY(S)-IN-FACT

KNOW ALL PERSONS BY THESE PRESENTS, THAT TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, corporations duly organized under the laws of the State of Connecticut, and having their principal offices in the City of Hartford, County of Hartford, State of Connecticut, (hereinafter the "Companies") hath made, constituted and appointed, and do by these presents make, constitute and appoint: James S. Dickey, L.M. Bryant, Teresa M. Sheppard, W. Joseph Lammell, of Memphis, Tennessee, their true and lawful Attorney(s)-in-Fact, with full power and authority hereby conferred to sign, execute and acknowledge, at any place within the United States, the following instrument(s): by his/her sole signature and act, any and all bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking and any and all consents incident thereto and to bind the Companies, thereby as fully and to the same extent as if the same were signed by the duly authorized officers of the Companies, and all the acts of said Attorney(s)-in-Fact, pursuant to the authority herein given, are hereby ratified and confirmed.

This appointment is made under and by authority of the following Standing Resolutions of said Companies, which Resolutions are now in full force and effect:

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary may appoint Attorneys-in-Fact and Agents to act for and on behalf of the company and may give such appointee such authority as his or her certificate of authority may prescribe to sign with the Company's name and seal with the Company's seal bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking, and any of said officers or the Board of Directors at any time may remove any such appointee and revoke the power given him or her.

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President may delegate all or any part of the foregoing authority to one or more officers or employees of this Company, provided that each such delegation is in writing and a copy thereof is filed in the office of the Secretary.

VOTED: That any bond, recognizance, contract of indemnity, or writing obligatory in the nature of a bond, recognizance, or conditional undertaking shall be valid and binding upon the Company when (a) signed by the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary and duly attested and sealed with the Company's seal by a Secretary or Assistant Secretary, or (b) duly executed (under seal, if required) by one or more Attorneys-in-Fact and Agents pursuant to the power prescribed in his or her certificate or their certificates of authority or by one or more Company officers pursuant to a written delegation of authority.

This Power of Attorney and Certificate of Authority is signed and sealed by facsimile (mechanical or printed) under and by authority of the following Standing Resolution voted by the Boards of Directors of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, which Resolution is now in full force and effect:

VOTED: That the signature of each of the following officers: President, any Executive Vice President, any Senior Vice President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Secretary, and the seal of the Company may be affixed by facsimile to any power of attorney or to any certificate relating thereto appointing Resident Vice Presidents, Resident Assistant Secretaries or Attorneys-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and any such power of attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached.

IN WITNESS WHEREOF, TRAVELERS CASUALTY AND SURETY CO
CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY CO.
signed by their Senior Vice President and their corporate seals to be hereto affixed this 8th day of February 2003.

STATE OF CONNECTICUT

}SS. Hartford

COUNTY OF HARTFORD



TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY

By

George W. Thompson
Senior Vice President

On this 8th day of February, 2003 before me personally came GEORGE W. THOMPSON to me known, who, being by me du sworn, did depose and say: that he/she is Senior Vice President of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, it corporations described in and which executed the above instrument; that he/she knows the seals of said corporations; that the sea affixed to the said instrument are such corporate seals; and that he/she executed the said instrument on behalf of the corporations authority of his/her office under the Standing Resolutions thereof.



Marie C Tetreault

My commission expires June 30, 2006 Notary Public
Marie C. Tetreault

CERTIFICATE

I, the undersigned, Assistant Secretary of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, stock corporations the State of Connecticut, DO HEREBY CERTIFY that the foregoing and attached Power of Attorney and Certificate of Author remains in full force and has not been revoked; and furthermore, that the Standing Resolutions of the Boards of Directors, as forth in the Certificate of Authority, are now in force.

Signed and Sealed at the Home Office of the Company, in the City of Hartford, State of Connecticut. Dated this 9th day of June, 2004



By

Kori M. Johanson
Assistant Secretary, Bond

The Travelers logo, featuring the word "Travelers" in a serif font, with a stylized oval shape above it.

IMPORTANT DISCLOSURE NOTICE OF TERRORISM INSURANCE COVERAGE

On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act of 2002 (the "Act"). The Act establishes a short-term program under which the Federal Government will share in the payment of covered losses caused by certain acts of international terrorism. We are providing you with this notice to inform you of the key features of the Act, and to let you know what effect, if any, the Act will have on your premium.

Under the Act, insurers are required to provide coverage for certain losses caused by international acts of terrorism as defined in the Act. The Act further provides that the Federal Government will pay a share of such losses. Specifically, the Federal Government will pay 90% of the amount of covered losses caused by certain acts of terrorism which is in excess of Travelers' statutorily established deductible for that year. The Act also caps the amount of terrorism-related losses for which the Federal Government or an insurer can be responsible at \$100,000,000,000.00, provided that the insurer has met its deductible.

Please note that passage of the Act does not result in any change in coverage under the attached policy or bond (or the policy or bond being quoted). Please also note that no separate additional premium charge has been made for the terrorism coverage required by the Act. The premium charge that is allocable to such coverage is inseparable from and imbedded in your overall premium, and is no more than one percent of your premium.

HAIG POINT UTILITY COMPANY, INC.
TEST YEAR VS. COMPLETE SYSTEM COMPARISON
2005-34-WS

Test Year vs. Complete System Comparison							
Customer Classification	Service Type	Annual Billing: Test Year	Annual Billing: Complete System	Water Consumption: Test Year	Water Consumption: Complete System	Revenues: Test Year	Revenues: Complete System
Residential	Water	741.00	3,012.00	13,463.100	56,068.400	\$39,651.00	\$247,677.00
Commercial	Water	88.00	100.00	4,795.300	4,550.800	\$10,023.00	\$15,402.00
Wastewater Treatment Plant	Irrigation (1)	20.60	20.60	1,542.000	1,537.400	\$1,850.00	\$3,075.00
Irrigation Commercial/Residential	Irrigation	1,992.80	4,682.80	39,082.600	87,166.900	\$46,899.00	\$189,592.00
Residential	Sewer (2)	741.00	3,012.00	0	0	\$38,495.00	\$509,719.00
Commercial	Sewer (2)	88.00	100.00	0	0	\$9,202.00	\$26,220.00
Availability Fees		456.30	0.00	0	0	\$82,136.00	\$0.00
Totals		4,127.70	10,927.40	58,883.000	149,323.500	\$228,256.00	\$991,685.00
ORS Calculation of Expense							
Factors: Sewer							
Residential	Sewer (2)	13,572.500	56,068.400	4,1310	HPUC Growth Factor		
Commercial	Sewer (2)	4,873.000	4,550.800	0.9339			
Total		18,445.500	60,619.200	3,2864	3,2860		
ORS Calculation of Expense							
Factors: Water							
Residential	Water	13,463.100	56,068.400	4,1646	HPUC Growth Factor		
Commercial	Water	4,795.300	4,550.800	0.9490			
Irrigation Commercial/Residential	Water	39,082.600	87,166.900	2,2303			
Wastewater Treatment Plant	Irrigation (1)	1,542.000	1,537.400	0.9970			
Total		58,883.000	149,323.500	2,5359	2,5360		
ORS Calculation of Expense							
Factors: Customers							
Residential	Water/Sewer	741.00	3,012.00	4,0648	HPUC Growth Factor (3)		
Commercial	Water/Sewer	88.00	100.00	1,1364			
Irrigation Commercial/Residential	Water	1,992.80	4,682.80	2,3499			
Wastewater Treatment Plant	Irrigation (1)	20.60	20.60	1,0000			
Total		2,842.40	7,815.40	2,7496	3,7540		

Notes:

- (1) Wastewater Treatment Plant uses water from wells to dilute chlorine and a nominal amount for potable drinking water in office.
- (2) Residential/Commercial Sewer customers are billed based on water consumption.
- (3) HPUC Customer Growth Factor used to calculate expenses derived by using test year residential and commercial customers only.

HAIG POINT UTILITY COMPANY, INC.
2005-34-WS
PROPOSED RATES COMPARISON
COMPLETE SYSTEM

EXHIBIT DMH-6
PAGE 1 OF 1

Proposed Residential Rate Structure Comparison

Proposed Residential Rate Structure Comparison										
Customer Classification	Service Type	Billing Unit of Measure	Base Charge				Consumption Charge			
			Current Base Quarterly Rate (1)	HPUC Proposed Base Quarterly Rate	Total Amount of Increase	Percent Increase	Current Consumption Rate (2)	HPUC Proposed Consumption Rate (3)	Total Amount of Increase	Percent Increase
Residential	Water	per quarter	\$45.00	\$45.00	\$0.00	0.00%	\$1.20	\$2.00	\$0.80	66.67%
	Sewer	per quarter	\$45.00	\$145.03	\$100.03	222.29%	\$0.96	\$1.30	\$0.34	35.42%
	Irrigation	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$2.00	\$0.80	66.67%
	(0-18.00 gallons/quarter)									
	Irrigation (18,000-60,000 gallons/quarter)	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$2.25	\$1.05	87.50%
	Irrigation (Over 60,000 gallons/quarter)	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$2.55	\$1.35	112.50%

Proposed Commercial Rate Structure Comparison

Proposed Commercial Rate Structure Comparison										
Customer Classification	Service Type	Billing Unit of Measure	Base Charge				Percent Increase	Consumption Charge		
			Current Base Quarterly Rate (1)	HPUC Proposed Base Quarterly Rate	Total Amount of Increase	Current Consumption Rate (2)		HPUC Proposed Consumption Rate (3)	Total Amount of Increase	Percent Increase
Residential	Water	per quarter	\$63.00	\$63.00	\$0.00	0.00%	\$1.20	\$2.00	\$0.80	66.67%
	Sewer	per quarter	\$63.00	\$203.04	\$140.04	222.29%	\$0.96	\$1.30	\$0.34	35.42%
	Irrigation	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$2.00	\$0.80	66.67%
	Irrigation (0-18.00 gallons/quarter)									
	Irrigation (18,000-60,000 gallons/quarter)	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$2.25	\$1.05	87.50%
	Irrigation (Over 60,000 gallons/quarter)	per 1,000 gallons	\$0.00	\$0.00	\$0.00	0.00%	\$1.20	\$2.55	\$1.35	112.50%

Proposed Other Rate Structure Comparison

Customer Classification	Treatment Type (1)	Billing Unit of Measure	Current Rate	HPUC Proposed Rate	Amount of Increase	Percent Increase
Residential	Tap Fee/Meter Box	each	\$500.00	\$500.00	\$0.00	0.00%
	Tap Fee - Hotel/Inn Room	each	\$250.00	\$250.00	\$0.00	0.00%
	Tap Fee - <1.5" Meter	each	\$500.00	\$500.00	\$0.00	0.00%
	Tap Fee - 2"-3" Meter	each	\$1,500.00	\$1,500.00	\$0.00	0.00%
	Tap Fee - 6" Meter	each	\$3,500.00	\$3,500.00	\$0.00	0.00%
Commercial	Tap Fee - 6" Meter	each	Case by case	Case by case		
	Tap Fee > 6" Meter	each	Case by case	Case by case		
All Classifications	Impact Fee	each	System Buy in Pricing applies	System Buy-in Pricing applies		

Notes

- (1) Current Base Quarterly Rate includes a minimum water usage allowance of 22,500 gallons/quarter.
- (2) Current consumption rate is applied to quarterly water/sewer usage over 22,500 gallons.
- (3) HPUC proposed rate structure eliminates the minimum water usage allowance. Customers will be billed a consumption rate beginning with the first gallon used. Irrigation usage will be charged based on usage tiers specified in the Application.

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
SHARON G. SCOTT**

COPIES OF
DOCKET NO. 2005-34-W/S
JUL 13 2005
10:00 AM



DOCKET NO. 2005-34-W/S

**Application of Haig Point Utility
Company, Inc. for Approval of an
Adjustment in Rates and Charges for
Water and Sewer Services**

TESTIMONY OF SHARON G. SCOTT**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-34-W/S****IN RE: HAIG POINT UTILITY COMPANY, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Sharon G. Scott. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a B.S. Degree in Business Administration, with a major in Accounting from the University of South Carolina in May 1983 and a MBA degree from Webster University in May 2000. I was employed by the South Carolina Public Service Commission in July 1983 and have participated in cases involving gas, electric, telephone, water and wastewater utilities. I have 22 years of experience auditing utility companies. In January 2005, I began my employment with the Office of Regulatory Staff (ORS).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING HAIG POINT UTILITY COMPANY, INC.?

1 A. The purpose of my testimony is to set forth my findings and recommendations
2 resulting from ORS's review of the application of Haig Point Utility Company, Inc.
3 ("HPUC" or "the Company") in this docket.

4 **Q. IS YOUR REPORT BASED ON THE COMPLETE SYSTEM**
5 **METHODOLOGY?**

6 A. Yes. ORS did an evaluation and comparison of the complete system method and the
7 traditional method of ratemaking. ORS found the complete system method to be a
8 fair and equitable method to allocate cost to the present customers of this system
9 where the development of the property has extended to nearly over 20 years. The
10 Company projects that the system will be fully developed in the year 2024. For
11 information and comparative purposes, ORS has provided Audit Exhibit SGS-11,
12 Operating Experience, Rate Base, Rates of Return and Other Exhibits – Present
13 Customers, which sets forth accounting and pro forma adjustments under traditional
14 ratemaking methodology accepted by the Commission. ORS provides this exhibit as
15 a comparison by which to consider the fairness of the complete system method.

16 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
17 **TESTIMONY.**

18 A. I have attached ORS's Audit Report related to HPUC's Application for a Rate
19 Increase, Docket No. 2005-34-W/S. The contents of the Audit Report were either
20 prepared by me or were prepared under my direction and supervision in compliance
21 with recognized accounting and regulatory procedures for Water and Wastewater
22 utility rate cases.

1 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

2 A. As outlined in the Index of the Audit Report, pages 1-5 contain the analysis of HPUC
3 and its application. The remaining pages consist of exhibits which were prepared to
4 show various aspects of HPUC's operations and financial position for per book and
5 complete system operations. The majority of my testimony will refer to Audit Exhibit
6 SGS-1 - Operating Experience, Rate Base and Rates of Return - Combined
7 Operations as shown on page 6 of the Audit Report.

8 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT SGS-1.**

9 A. Column (1) shows per book balances for HPUC as of June 30, 2004. I verified the
10 per book balances to the books and records of HPUC.

11 Column (2) shows my accounting and pro forma adjustments designed to normalize
12 HPUC's per book operations and show the effects of the complete system operations.

13 Column (3) shows my computation of HPUC's normalized test year and complete
14 system operations prior to implementing the proposed increase.

15 Column (4) shows the adjustments for the requested rate increase and ORS's
16 adjustments associated with the additional revenues for a complete system number of
17 customers.

18 Column (5) shows our computation of the normalized test year after accounting and
19 pro forma adjustments, the requested rate increase and associated adjustments for the
20 complete system number of customers.

**Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT
SGS-1 – OPERATING EXPERIENCE, RATE BASE AND RATES OF
RETURN - COMBINED.**

A. Column (1) shows the per books operating experience of HPUC. We computed Net Income for Return of (\$46,106) based on Total Operating Revenues of \$228,256 less Total Operating Expenses of \$274,362. Per Book Total Rate Base amounted to \$4,900,714. We computed the per book rate of return of (0.94%) using Net Operating Income of (\$46,106) and Total Rate Base of \$4,900,714.

In Column (2) our accounting and pro forma adjustments are presented to normalize HPUC's test year operations and reflect the projections for a complete system. A description of each adjustment is contained in Audit Exhibit SGS- 4.

Column (3) is the sum of Columns (1) and (2) and reflects the As Adjusted figures for the complete system. The accounting and pro forma adjustments produced Net Income for Return of (\$38,002) and Total As Adjusted Rate Base of \$1,522,294, resulting in a Rate of Return on Rate Base of (2.50%).

Column (4) shows the effect of the proposed increase as requested by HPUC using the total number of customers when the system is fully completed and the proposed rates. These adjustments are detailed in Audit Exhibit SGS - 4.

Column (5) shows per book operations, adjusted for accounting and pro forma adjustments and the requested increase for the complete system. Using Total Operating Revenues of \$991,684 less Total Operating Expenses of \$661,205, I computed Net Income for Return of \$330,479. Net Income for Return of \$330,479

divided by Total Rate Base of \$1,522,294 produced a Rate of Return on Rate Base of 21.71%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT SGS - 4.

A. The adjustments are as follows:

Adjustment No. 1 Service Revenue – ORS and HPUC propose to adjust revenues using the complete system number of customers and present rates. The As Adjusted Service Revenues totaled \$445,051 less the per book amount of \$146,120, for an adjustment of \$298,931 (water - \$180,376 and sewer - \$118,555).

Adjustment No. 2 – Availability Fees – ORS and HPUC propose to eliminate Availability Fees as Operating Revenues for the Complete System. Since the complete system methodology assumes that all customers will be on the system, the availability fees would no longer be collected. However, as the application of the complete system method is being proposed currently, ORS proposes to remove the Accumulated Availability Fees through the end of the test year from Rate Base.

Adjustment No. 3 - Allocation Adjustment – ORS proposes to adjust salaries to correct the per book amounts to reflect the 60/40 split of direct wages for the water and wastewater treatment operations between HPUC and Melrose Utility Company, Inc. and to show the correct salary amount for the water operations. The employees who work on the utility systems for Daufuskie Island are employed by HPUC. The wages are then allocated based on direct hours for each system. For sewer, the expenses were booked correctly, but the expense, as shown on the application, was allocated using a composite rate which overstated the salaries. In addition, for water,

1 HPUC did not show the proper amount for water salaries in the application and
2 booked benefits that should have been allocated to Melrose Utilities. ORS's
3 adjustment reduces the total salaries by (\$14,248).

4 Adjustment No. 4 – Allocation of Other Expenses – ORS proposes to correct the
5 application amounts for operating expenses to reflect the 60/40 allocation of
6 expenses between HPUC and Melrose Utility Company, Inc. ORS proposes an
7 increase in sewer expenses of \$4,307.

8 Adjustment No. 5 – Salary Expense – Complete System – HPUC and ORS propose
9 to increase the level of wages for the current 2 employees of \$63,476 to reflect the
10 wages of 6 employees projected to be required for the operation of the complete
11 system. The additional employees are necessary to operate and provide maintenance
12 for the elevated water storage tank, new groundwater well, increased reading of
13 meters, and increased maintenance on the water and sewer systems for a full
14 compliment of customers. The adjustment is for HPUC's portion of wages for those
15 six employees necessary to maintain its water and sewer operations. ORS proposes
16 an adjustment of \$112,704 using adjusted wages of $\$63,476 \times 3 = \$190,428$ less the
17 per book amount of \$77,724. HPUC proposes an adjustment of \$155,449 based on
18 wages as filed in the application.

19 Adjustment No. 6 – Repairs & Maintenance – ORS and HPUC propose to increase
20 repair and maintenance costs for the water system associated with the new elevated
21 water storage tank and new groundwater well. The test year expenses of \$47,990 are
22 adjusted using a factor of 1.645, resulting in the expense of \$78,945 for the complete

1 system costs. The factor represents the increase from the present level for water
2 plant of \$1,731,215 to the complete system amount for plant of \$2,847,910. The
3 total adjustment is \$30,955 (\$78,945 less \$47,990).

4 Adjustments No. 7 - Operating Supply Costs -- ORS and HPUC propose to increase
5 the payment to American Water Works Association for certification manuals needed
6 for new operators due to the increase in number of employees. The total adjustment
7 is computed using the per book amount adjusted by a factor of 2.536. The factor is
8 based on the projected increase in the system flow from the present amount to the
9 complete system amount. The factor was verified by ORS's Water and Wastewater
10 specialist Dawn Hipp. The total adjustment is \$152 (\$251 less \$99).

11 Adjustment No. 8 – Office Equipment Rental

12 ORS and HPUC propose to increase the cost for rental of equipment used to
13 maintain the lines for the complete system. The per book amount of \$490 is
14 adjusted using a factor of 3.754 for total complete system expenses of \$1,839.
15 The factor is based on the increased number of customers for the complete system.
16 The factor was verified by ORS's Water and Wastewater specialist Dawn Hipp. The
17 water adjustment is \$1,349 (\$1,839 less \$490).

18 Adjustment No. 9 – Power Costs

19 ORS and HPUC propose to increase power costs to reflect the expected cost of
20 power to operate the complete system. Per book water costs of \$19,419 were
21 adjusted using a factor of 2.536 for total complete system expense of \$49,245. The
22 adjustment is \$29,826 (\$49,245 less \$19,419). The reallocated per book sewer power

1 costs of \$9,422 were adjusted using a factor of 3.286 for the total complete system
2 expense of \$30,961. The adjustment was \$21,539 (\$30,961 less \$9,422). The ORS
3 combined operations adjustment to power costs totaled \$51,365. The factor was
4 verified by ORS's Water and Wastewater specialist Dawn Hipp.

5 Adjustment No. 10 – Costs Associated with Taps

6 ORS proposes to remove expenses for installing taps. These expenses are capital
7 expenditures and should be booked in plant accounts. The total adjustment reduced
8 expenses by (\$3,781).

9 Adjustment No. 11 – Bad Debt Expense

10 ORS and HPUC propose to adjust bad debt expense to reflect 2.0% of complete
11 system revenue for present customers. ORS water and wastewater specialist Dawn
12 Hipp reviewed billing records and verified that the 2.0% uncollectible factor was
13 reasonable. The total adjustment was a reduction of (\$18,711).

14 Adjustment No. 12 – Rate Case Expenses - ORS and HPUC propose to adjust for
15 rate case expenses. HPUC's adjustment included estimated total rate case expenses
16 of \$80,000, amortized over four years, which amounted to a total adjustment of
17 \$20,000. ORS adjusted for actual to date expenses for which HPUC provided
18 supporting invoices. These expenses included Legal and Consulting Fees which
19 totaled \$41,385. HPUC has not had a rate adjustment since the approval of its initial
20 rate filing in 1988 and therefore ORS had no history to determine an amortization
21 period. ORS proposes to amortize the rate case expenses over a five-year period, a

1 reasonable time period for recovery of these expenses. ORS's adjustment was for
2 \$8,277 (\$41,385 / 5 years).

3 Adjustment No. 13 – Legal Expenses – ORS proposes to remove legal expenses not
4 related to the utility company. The adjustment removed (\$12,590) from expenses.

5 Adjustment No. 14 – Depreciation Expense – ORS and HPUC propose to reflect the
6 annual depreciation expense for the complete system plant in service. HPUC used a
7 service life of 50 years for the water and sewer mains and tanks, and 32 years for the
8 wastewater treatment plant for total depreciation expense for the complete system of
9 \$101,745 less the per book amount of \$30,296. HPUC's resulting adjustment was
10 \$85,001 (\$44,113 for water and \$40,888 for sewer). ORS also proposes to reflect
11 depreciation expense for the complete system plant in service. ORS used
12 depreciation service life of 50 years for water and sewer mains and tank, and 32
13 years for the Water & Wastewater treatment plant. In addition ORS included the
14 proportionate share of a vehicle shared by another utility on the island and included
15 wastewater treatment plant upgrades completed in October 2004. ORS's total
16 annualized depreciation expense for the complete system was \$101,745 (\$57,008 for
17 water and \$44,737 for sewer). ORS reduced depreciation expense for the
18 amortization of Contributions in Aid of Construction (CIAC). These funds are
19 customer supplied funds used for plant expenditures and therefore the depreciation
20 expenses should be reduced by the amortization of CIAC. ORS's net depreciation
21 expense was \$45,535 with the resulting adjustment of \$15,239 (\$45,535 less the per

1 book amount of \$30,296). See Audit Exhibit SGS-5 for the detailed computation of
2 Depreciation Expense.

3 Adjustment No. 15 – Gross Receipts Taxes – HPUC and ORS propose to reflect the
4 gross receipts taxes for the as adjusted revenue for the complete system. HPUC used
5 a factor of 1.12528% for a total adjustment of \$5,008. ORS used the most recent
6 gross receipts factor of 0.83772% for a total adjustment of \$3,728.

7 Adjustment No. 16 – Property Taxes – HPUC proposes to adjust property taxes for
8 1.0% of pro forma plant costs for a total adjustment of \$54,759. ORS proposes to
9 adjust for taxes actually paid to Beaufort County for real property for HPUC. ORS
10 proposes a total adjustment of \$603.

11 Adjustment No. 17 – Payroll Taxes - HPUC and ORS propose to adjust for payroll
12 taxes for the complete system number of employees. HPUC proposes a total
13 adjustment of \$17,838 using total wages of \$233,173 at 7.65%. ORS proposes a total
14 adjustment of \$14,567 using total wages of \$190,431 at 7.65%.

15 Adjustment No. 18 – Income Taxes – ORS and HPUC propose to adjust for state and
16 federal income taxes on as adjusted taxable income. ORS used the state tax rate of
17 5% and the federal income tax graduated rates to compute as adjusted taxes of \$-0-,
18 resulting in an adjustment of \$14,775. HPUC used a state tax rate of 4.066% and
19 composite rates of 22.178% for water and 32.474% for sewer.

20 Adjustment No. 19 – Gross Plant in Service – ORS and HPUC propose to adjust
21 plant in service for the elevated water storage tank and new groundwater well. In
22 addition, ORS proposes to include a proportionate share of a truck used by HPUC,

1 wastewater treatment upgrades completed in October 2004, and expenses associated
2 with taps for a total adjustment of \$1,167,853. HPUC proposes an adjustment of
3 \$1,116,695.

4 Adjustment No. 20 – Accumulated Depreciation – ORS and HPUC propose to adjust
5 accumulated depreciation based on the system utilization percentages. The
6 utilization percentages are based on each year's total Equivalent Residential
7 Customers divided by the total Equivalent Residential Customers at complete system
8 build-out. Therefore accumulated depreciation at complete system build-out reflects
9 the actual level of customer usage over the years. HPUC proposes total complete
10 system accumulated depreciation of \$1,770,980 for an adjustment of \$1,530,898
11 (\$1,770,980 less \$240,082 per books). ORS proposes total complete system
12 accumulated depreciation of \$1,942,407 for an adjustment of \$1,702,325.
13 (\$1,942,407 less \$240,082).

14 Adjustment No. 21 – Construction Work In Progress – ORS and HPUC propose to
15 remove completed projects for the new groundwater well and elevated water storage
16 tank from construction work in progress and book to plant in service since these
17 projects are essentially completed. The total adjustment amounted to (\$1,116,695).

18 Adjustment No. 22 – Contributions in Aid of Construction (CIAC) - ORS and HPUC
19 propose to adjust CIAC to reflect the complete system number of customers. HPUC
20 proposes to include total CIAC of \$1,715,000, resulting in an adjustment of
21 (\$1,251,000) (\$1,715,000 - \$464,000 per books). ORS proposes to also include

1 cumulative availability fees of (\$1,095,480) through the end of the test year for a
2 total adjustment of (\$2,346,480).

3 Adjustment No. 23 – Amortization of Contributions in Aid of Construction (CIAC) –

4 ORS and HPUC propose to adjust the amortization of CIAC to reflect the complete
5 system number of customers. HPUC proposes total amortization of \$492,980,
6 resulting in an adjustment of \$410,240 (\$492,980 - \$82,740 per books). ORS
7 proposes to also include the amortization for availability fees of \$171,360 for a total
8 adjustment of \$581,600.

9 Adjustment No. 24 – Cash Working Capital– ORS and HPUC propose to adjust cash
10 working capital for the complete system level of customers based on a 1/5 working
11 capital factor. The factor is based on HPUC's billing and collection cycle. HPUC
12 bills the customers quarterly in arrears. The service is provided an average of 45
13 days prior to billing the customer for the service and it takes HPUC an average of 30
14 days before the customer's payment is received. The result is a 75-day lag period or
15 approximately 1/5 of a year. HPUC proposes an adjustment of \$708 and ORS
16 proposes an adjustment of \$37,627. The computation of Cash Working Capital is
17 shown on SGS – 7.

18 Adjustment No. 25 – Unamortized Balance – HPUC proposes to include the
19 remaining unamortized balance of \$45,000 for rate case expenses in rate base. ORS
20 proposes to include the amortization of rate case expenses in operating expenses but
21 not allow the unamortized portion in rate base, resulting in a sharing of the expenses
22 between the customer and stockholder.

1 Adjustment No. 26 – Operating Revenues - Proposed Increase - The
2 Water/Wastewater Department proposes to adjust the revenues to reflect the
3 proposed increase for the complete system. Dawn Hipp provided the revenue
4 adjustment for water and sewer operations using the complete system number of
5 customers and proposed rates. The Proposed Service Revenues computed by the
6 Water/Wastewater Department totaled \$991,684 less the as adjusted revenue of
7 \$445,051, for an adjustment of \$546,633 (water - \$176,946 and sewer - \$369,687).

8 Adjustment No. 27 – Bad Debt Expense – Proposed Increase – ORS and HPUC
9 propose to adjust bad debt expense to reflect 2.0% of complete system revenue for
10 proposed customers at proposed rates. ORS water and wastewater specialist Dawn
11 Hipp verified that the factor was reasonable after her review of billing records.
12 ORS's total adjustment amounted to \$10,933. HPUC's adjustment was for \$10,936.

13 Adjustment No. 28 – Gross Receipts Taxes – Proposed Increase - HPUC and ORS
14 propose to reflect the gross receipts taxes for the proposed revenue for the complete
15 system. HPUC used a factor of 1.12528% for a total adjustment of \$6,151. ORS
16 used the most recent gross receipts factor of 0.83772% for a total adjustment of
17 \$4,579.

18 Adjustment No. 29 – Income Taxes – ORS and HPUC propose to adjust state and
19 federal income taxes on the proposed taxable income. ORS used the state tax rate of
20 5% and the federal income tax graduated rates to compute an income tax adjustment
21 of \$162,640. HPUC used a state tax rate of 4.066% and composite rate of 18.133%
22 for water and 23.341% for sewer to compute total income taxes of \$150,266.

1 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

2 A. Audit Exhibit SGS-5 shows the Depreciation Expense Adjustment. Audit Exhibit
3 SGS-6 shows the Computation of Income Taxes. Audit Exhibit SGS-7 shows the
4 Cash Working Capital Allowance. Audit Exhibit SGS-8 shows the Return on
5 Common Equity. Audit Exhibit SGS-9 shows the Income Statement for the Test
6 Year Ended June 30, 2004. Audit Exhibit SGS-10 shows the Balance Sheet for the
7 Test Year Ended June 30, 2004. Audit Exhibit SGS-11, shows the Operating
8 Experience, Rate Base, Rates of Return and other exhibits, for comparison purposes,
9 for the traditional rate case method of accounting for revenue and expenses for the
10 present customers.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes, it does.
13

DIRECT EXHIBITS
OF
SHARON G. SCOTT

DOCKET NO. 2005-34-W/S

**Application of Haig Point Utility
Company, Inc. for Approval of an
Adjustment in Rates and Charges for
Water and Sewer Services**

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF**

DOCKET NO. 2005-34-W/S

HAIG POINT UTILITY COMPANY, INC.

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-34-W/S

HAIG POINT UTILITY COMPANY, INC.

INDEX

	<u>PAGE NUMBER</u>
Synopsis-----	i
Analysis-----	1 - 5
Exhibit SGS-1: Operating Experience, Rate Base, and Rates of Return - Combined Operations-----	6
Exhibit SGS-2: Operating Experience, Rate Base, and Rates of Return - Water Operations-----	7
Exhibit SGS-3: Operating Experience, Rate Base, and Rates of Return - Sewer Operations-----	8
Exhibit SGS-4: Explanation of Accounting and Pro Forma Adjustments - Water, Sewer, Combined-----	9 - 12
Exhibit SGS-5 Depreciation Expense Adjustment-----	13
Exhibit SGS-6: Computation of Income Taxes-----	14
Exhibit SGS-7: Cash Working Capital Allowance-----	15
Exhibit SGS-8: Return on Common Equity – Water, Sewer, Combined-----	16
Exhibit SGS-9: Income Statement-----	17
Exhibit SGS-10: Balance Sheet-----	18
Exhibit SGS-11: Operating Experience, Rate Base, Rates of Return and Other Exhibits- Present Customers-----	19 - 31

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-34-W/S

HAIG POINT UTILITY COMPANY, INC.

SYNOPSIS

Complete System

Amount Requested - Water ----- \$176,946
- Sewer ----- \$369,687
- Combined ----- \$546,633

<u>Return on Rate Base:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Per Books - HPUC-----	(0.94%)	0.08%	(2.00%)
As Adjusted-----	(2.50%)	(16.32%)	5.38%
After Proposed Increase-----	21.71%	10.68%	27.99%

<u>Return on Common Equity:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
As Adjusted-----	(12.49%)	(40.13%)	3.25%
After Proposed Increase-----	35.92%	13.86%	48.48%

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-34-W/S

HAIG POINT UTILITY COMPANY, INC.

ANALYSIS

ORS has performed a review of the Application of Haig Point Utility Company, Inc. (hereinafter referred to as "HPUC") along with certain HPUC's accounting records, relative to its application for authority to increase certain rates and charges in Docket No. 2005-34-W/S.

HPUC is a water and wastewater utility operating in the state of South Carolina. HPUC furnishes both water and sewer service to residential and commercial customers on Daufuskie Island in Beaufort County. HPUC's home office is located in Montvale, NJ. HPUC is a wholly-owned subsidiary of International Paper Company.

ORS respectfully submits the results of its review as follows:

1. HPUC filed an application on February 24, 2005 for approval of rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing on Thursday, July 18, 2005 at 11:00 am.
3. HPUC's application uses a test year ending June 30, 2004.
4. HPUC's rates were established in 1988, and HPUC has not had a rate filing since that time.

ORS's exhibits related to HPUC's proposed increase are as follows:

AUDIT EXHIBIT SGS-1: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-COMBINED

Shown in this exhibit is HPUC's Operating Experience, Rate Base, and Rates of Return for combined operations for the test year ended June 30, 2004 for the complete system analysis. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of HPUC's test year operations and to show the results of the complete system methodology.

ORS verified the per book balances to the books and records of HPUC. The book figures reflect that Operating Revenues for HPUC totaled \$228,256, Total Operating Expenses were \$274,362 and Net Income for Return totaled (\$46,106). HPUC's per book Rate Base was \$4,900,714. As shown in the application, HPUC computed a per book Rate of Return on Rate Base of -0.94% using Net Operating Income of (\$46,106) and a rate base of \$4,900,714. The net effect of the accounting and pro forma adjustments produced Operating Revenues of \$445,051, Net Income for Return of (\$38,002), and a Total Rate Base of \$1,522,294. Using the Net Income for Return and Total Rate Base, ORS computed a Rate of Return on Rate Base of (2.50%) for as adjusted operations for the complete system.

HPUC has requested an increase in rates which would produce additional gross annual revenues for the Complete System of \$546,633, comprised of a water increase of \$176,946 and a sewer increase of \$369,687. ORS adjusted for bad debt expense, gross receipts taxes and income taxes associated with the proposed increase for the complete system.

After the proposed increase, Total Operating Revenues were \$991,684 and Net Income for Return was \$330,479. Total Rate Base after the proposed increase was \$1,522,294. Using Net Income for Return and Total Rate Base after the proposed increase, ORS computed a Rate of Return on Rate

Base of 21.71% for the Complete System.

AUDIT EXHIBIT SGS-2: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN- WATER

Shown in this ORS exhibit is the Operating Experience, Rate Base, and Rate of Return for HPUC's Water Operations for the complete system.

AUDIT EXHIBIT SGS-3: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-SEWER

Shown in this ORS exhibit is the Operating Experience, Rate Base, and Rate of Return for HPUC's Sewer Operations for the complete system.

AUDIT EXHIBIT SGS-4: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS- WATER, SEWER, AND COMBINED

Shown in this exhibit are the details of accounting and pro forma adjustments made to correct or normalize HPUC's water and sewer operations and to reflect the proposed increase for the complete system. For comparative purposes, ORS and HPUC's adjustments are both presented in this exhibit.

AUDIT EXHIBIT SGS-5: DEPRECIATION EXPENSE ADJUSTMENT

Shown in this exhibit are ORS's computation of the complete system Depreciation Expense and the amortization of Contributions in Aid of Construction (CIAC) for the test year. The Depreciation rate of 2.0% (50 years) was used for water and sewer mains, 3.125% (32 years) was used for the wastewater treatment plant, and 16.66% (6 years) for vehicles. These rates were recommended by ORS's Water/Wastewater Department.

AUDIT EXHIBIT SGS-6: COMPUTATION OF INCOME TAXES

Shown in this exhibit is ORS's computation of State and Federal Income Taxes based on taxable income after accounting and pro forma adjustments and after the effect of the requested

increase. ORS used the state tax rate of 5% and federal graduated tax rates.

AUDIT EXHIBIT SGS-7: CASH WORKING CAPITAL ALLOWANCE

Shown in ORS's exhibit is the calculation of cash working capital based on as adjusted operations at June 30, 2004. ORS uses a seventy-five day cash working capital allowance to reflect HPUC's billing and collection cycle.

AUDIT EXHIBIT SGS-8: RETURN ON COMMON EQUITY – WATER, SEWER, AND COMBINED

HPUC's return on common equity is computed before and after the requested increase for complete system. The rate base, as shown on Audit Exhibit SGS-1, is allocated among the various classes of debt and equity according to the respective ratios as computed using a hypothetical 50/50 capital structure.

ORS computed the amount of total income for return necessary to cover an embedded cost rate of 7.50% on long-term debt. The remainder of total income for return for combined operations produces a return of (12.49%) on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments is (2.50%). Such overall cost equals the rate of return on rate base shown on Audit Exhibit SGS-1.

After the requested increase of \$546,633 income available to common equity increases to \$273,393 and return on common equity increases to 35.92%. Overall cost of capital as shown in this exhibit equals 21.71%. Such overall cost of capital equals the rate of return on rate base on Audit Exhibit SGS-1.

Included in this exhibit is the Return on Common Equity as allocated to HPUC's water and sewer operations.

AUDIT EXHIBIT SGS-9: INCOME STATEMENT

HPUC's Income Statement for the test year ending June 30, 2004 is reflected in this exhibit.

ORS verified the income statement to the books and records of HPUC.

AUDIT EXHIBIT SGS-10: BALANCE SHEET

Shown in this exhibit is the Balance Sheet of HPUC as of June 30, 2004. ORS verified the balances contained in this statement to the books and records of HPUC.

AUDIT EXHIBIT SGS-11: OPERATING EXPERIENCE, RATE BASE, RATES OF RETURN

AND OTHER EXHIBITS – PRESENT CUSTOMERS

Shown in these exhibits is the operating experience for the traditional rate making procedures using present customers.

Haig Point Utility Company, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended June 30, 2004
Combined

Description	Per Company Books \$	Accounting & Pro Forma Adjustments \$		Complete System	
				As Adjusted \$	Effect of Proposed Increase \$
Operating Revenues:					
Water Service Revenues	98,423	180,376 (A)		278,799	176,946 (N)
Sewer Service Revenues	47,697	118,555 (A)		166,252	369,687 (N)
Availability Revenues - W & S	82,136	(82,136) (A)		0	0
Total Operating Revenues	228,256	216,795		445,051	546,633
Operating Expenses:					
Operating & Maintenance Expenses	185,387	182,803 (B)		368,190	0
Administrative & General Expenses	73,454	(23,024) (C)		50,430	10,933 (O)
Depreciation & Amortization Expenses	30,296	15,239 (D)		45,535	0
Taxes Other Than Income	0	18,898 (E)		18,898	4,579 (P)
Income Taxes	(14,775)	14,775 (F)		0	162,640 (Q)
Total Operating Expenses	274,362	208,691		483,053	178,152
Total Operating Income	(46,106)	8,104		(38,002)	368,481
Customer Growth	0	0		0	0
Net Income for Return	(46,106)	8,104		(38,002)	368,481
Original Cost Rate Base:					
Gross Plant in Service	4,359,264	1,167,853 (G)		5,527,117	0
Accumulated Depreciation	(240,082)	(1,702,325) (H)		(1,942,407)	0
Net Plant in Service	4,119,182	(534,472)		3,584,710	0
Construction Work In Progress	1,116,695	(1,116,695) (I)		0	0
Contributions in Aid of Construction	(464,000)	(2,346,480) (J)		(2,810,480)	0
Accumulated Amortization of CIAC	82,740	581,600 (K)		664,340	0
Cash Working Capital	46,097	37,627 (L)		83,724	0
Unamortized Balances	0	0 (M)		0	0
Total Rate Base	4,900,714	(3,378,420)		1,522,294	0
Return on Rate Base	-0.94%			-2.50%	21.71%
Interest Expense	0			57,086	57,086
Operating Margin	-20.20%			-21.37%	27.57%

Haig Point Utility Company, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended June 30, 2004
Water

Description	Per Company Books	Complete System			
		Accounting & Pro Forma Adjustments	As Adjusted	Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues:</u>					
Water Service Revenues	98,423	180,376 (A)	278,799	176,946 (N)	455,745
Availability Revenues	41,068	(41,068) (A)	0	0	0
<u>Total Operating Revenues</u>	139,491	139,308	278,799	176,946	455,745
<u>Operating Expenses:</u>					
Operating & Maintenance Expenses	87,464	216,314 (B)	303,778	0	303,778
Administrative & General	51,929	(19,750) (C)	32,179	3,539 (O)	35,718
Depreciation & Amortization Expenses	12,846	6,507 (D)	19,353	0	19,353
Taxes Other Than Income	0	13,629 (E)	13,629	1,482 (P)	15,111
Income Taxes	(14,799)	14,799 (F)	0	22,778 (Q)	22,778
<u>Total Operating Expenses</u>	137,440	231,499	368,939	27,799	396,738
<u>Total Operating Income</u>	2,051	(92,191)	(90,140)	149,147	59,007
Customer Growth	0	0	0	0	0
<u>Net Income for Return</u>	2,051	(92,191)	(90,140)	149,147	59,007
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	1,731,215	1,124,203 (G)	2,855,418	0	2,855,418
Accumulated Depreciation	(106,504)	(848,840) (H)	(955,344)	0	(955,344)
Net Plant in Service	1,624,711	275,363	1,900,074	0	1,900,074
Construction Work In Progress	1,116,695	(1,116,695) (I)	0	0	0
Contributions in Aid of Construction	(353,000)	(1,529,740) (J)	(1,882,740)	0	(1,882,740)
Accumulated Amort. of CIAC	63,150	404,800 (K)	467,950	0	467,950
Cash Working Capital	46,097	21,094 (L)	67,191	0	67,191
Unamortized Balances	0	0 (M)	0	0	0
<u>Total Rate Base</u>	2,497,653	(1,945,178)	552,475	0	552,475
<u>Return on Rate Base</u>	0.08%		-16.32%		10.68%
<u>Interest Expense</u>	0		20,718		20,718
<u>Operating Margin</u>	1.47%		-39.76%		8.40%

Haig Point Utility Company, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended June 30, 2004
Sewer

Description	Per Company Books \$	Complete System			
		Accounting & Pro Forma Adjustments \$	As Adjusted \$	Proposed Increase \$	After Proposed Increase \$
<u>Operating Revenues:</u>					
Sewer Service Revenues	47,697	118,555 (A)	166,252	369,687 (N)	535,939
Availability Revenues	41,068	(41,068) (A)	0	0	0
<u>Total Operating Revenues</u>	<u>88,765</u>	<u>77,487</u>	<u>166,252</u>	<u>369,687</u>	<u>535,939</u>
<u>Operating Expenses:</u>					
Operating & Maintenance Expenses	97,923	(33,511) (B)	64,412	0	64,412
Administrative & General	21,525	(3,274) (C)	18,251	7,394 (O)	25,645
Depreciation & Amortization Expenses	17,450	8,732 (D)	26,182	0	26,182
Taxes Other Than Income	0	5,269 (E)	5,269	3,097 (P)	8,366
Income Taxes	24	(24) (F)	0	139,862 (Q)	139,862
<u>Total Operating Expenses</u>	<u>136,922</u>	<u>(22,808)</u>	<u>114,114</u>	<u>150,353</u>	<u>264,467</u>
<u>Total Operating Income</u>	<u>(48,157)</u>	<u>100,295</u>	<u>52,138</u>	<u>219,334</u>	<u>271,472</u>
Customer Growth	0	0	0	0	0
<u>Net Income for Return</u>	<u>(48,157)</u>	<u>100,295</u>	<u>52,138</u>	<u>219,334</u>	<u>271,472</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	2,628,049	43,650 (G)	2,671,699	0	2,671,699
Accumulated Depreciation	(133,578)	(853,485) (H)	(987,063)	0	(987,063)
Net Plant in Service	2,494,471	(809,835)	1,684,636	0	1,684,636
Construction Work In Progress	0	0 (I)	0	0	0
Contributions in Aid of Construction	(111,000)	(816,740) (J)	(927,740)	0	(927,740)
Accumulated Amortization of CIAC	19,590	176,800 (K)	196,390	0	196,390
Cash Working Capital	0	16,533 (L)	16,533	0	16,533
Unamortized Balances	0	0 (M)	0	0	0
<u>Total Rate Base</u>	<u>2,403,061</u>	<u>(1,433,242)</u>	<u>969,819</u>	<u>0</u>	<u>969,819</u>
<u>Return on Rate Base</u>	<u>-2.00%</u>		<u>5.38%</u>		<u>27.99%</u>
<u>Interest Expense</u>	<u>0</u>		<u>36,368</u>		<u>36,368</u>
<u>Operating Margin</u>	<u>-54.25%</u>		<u>9.49%</u>		<u>43.87%</u>

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Complete System			
Description	Combined \$	Water \$	Sewer \$
(A) Operating Revenues			
As Adjusted			
1 ORS and HPUC propose to adjust operating revenues to reflect complete system number of customers at current rates			
Per ORS	298,931	180,376	118,555
Per HPUC	298,931	180,376	118,555
2 ORS and HPUC propose to remove Availability Billing for the complete system. ORS proposes to account for Availability Fees through the end of the test year as Contributions in Aid of Construction			
Per ORS	(82,136)	(41,068)	(41,068)
Per HPUC	(82,136)	(41,068)	(41,068)
(B) Operating and Maintenance			
3 ORS proposes to adjust salary expense to reflect the 60/40 split between HPUC and Melrose Utility Company, Inc adjust for benefits expense which should have been allocated to Melrose Utility Company, Inc. and correct per application water salaries.			
Per ORS	(14,248)	29,097	(43,345)
Per HPUC	0	0	0
4 ORS proposes to adjust operating and maintenance expenses to reflect 60/40 split with Melrose Utility Company, Inc.			
Per ORS	4,307	0	4,307
Per HPUC	0	0	0
5 ORS and HPUC propose to increase the level of wages for the current 2 employees to reflect the wages of 6 employees at test period costs for complete system			
Per ORS	112,704	127,401	(14,697)
Per HPUC	155,449	40,110	115,339
6 ORS and HPUC propose to increase the level of repair and maintenance costs for plant facilities by the percentage of plant additions.			
Per ORS	30,955	30,955	0
Per HPUC	30,955	30,955	0
7 ORS and HPUC propose to increase the level of operating supply costs for increased system demand.			
Per ORS	152	152	0
Per HPUC	152	152	0
8 ORS and HPUC propose to increase the level of office equipment rental for increased number of customers			
Per ORS	1,349	1,349	0
Per HPUC	1,349	1,349	0

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

<u>Complete System</u>			
<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
9 ORS and HPUC propose to increase the level of Power Costs for increased system demand.			
Per ORS	51,365	29,826	21,539
Per HPUC	49,692	29,826	19,866
10 ORS proposes to remove expenses associated with installing taps. These costs are considered capital expenditures and are included in plant in service.			
Per ORS	(3,781)	(2,466)	(1,315)
Per HPUC	0	0	0
Total Operating and Maintenance	182,803	216,314	(33,511)

(C) General and Administrative

11 ORS and HPUC propose to adjust Bad Debt Expense to reflect 2.0% of complete system revenue under present rates			
Per ORS	(18,711)	(11,298)	(7,413)
Per HPUC	(18,711)	(11,298)	(7,413)
12 ORS and HPUC propose to reflect the amortization of rate case expenses. ORS proposes a 5-year amortization of actual year to date expenses and HPUC proposes a 4-year amortization of estimated expenses			
Per ORS	8,277	4,138	4,139
Per HPUC	20,000	10,000	10,000
13 ORS proposes to remove nonallowable legal expenses from the test year.			
Per ORS	(12,590)	(12,590)	0
Per HPUC	0	0	0
Total General and Administrative	(23,024)	(19,750)	(3,274)

(D) Depreciation and Amortization Expense

14 ORS and HPUC propose to reflect the annual depreciation for complete system plant in service. ORS has reduced depreciation expenses by the amortization of CIAC.			
Per ORS	15,239	6,507	8,732
Per HPUC	85,001	44,113	40,888

(E) Taxes Other Than Income

15 HPUC proposes to reflect the revenue taxes of 1.12528% on pro forma revenue under present rates. ORS proposes to reflect revenue taxes on present rates using the latest gross receipts factor of 0.83772%.			
Per ORS	3,728	2,335	1,393
Per HPUC	5,008	3,137	1,871

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Complete System			
<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
16 HPUC proposes to reflect property taxes at 1.0% of pro forma plant costs. ORS proposes to adjust for actual property taxes assessed on real property for HPUC.			
Per ORS	603	14	589
Per HPUC	54,759	28,479	26,280
17 ORS and HPUC propose to reflect payroll taxes for the proposed new employees.			
Per ORS	14,567	11,280	3,287
Per HPUC	17,838	4,603	13,235
Total Taxes Other Than Income	18,898	13,629	5,269
(F) Income Taxes			
18 HPUC and ORS propose to adjust for state and federal income taxes for as adjusted operations. See Audit Exhibit SGS - 6			
Per ORS	14,775	14,799	(24)
Per HPUC	(89,699)	(11,127)	(78,572)
(G) Plant In Service			
19 ORS and HPUC propose to increase plant in service for the new groundwater well, elevated water storage tank, truck and wastewater treatment improvements.			
Per ORS	1,167,853	1,124,203	43,650
Per HPUC	1,116,695	1,116,695	0
(H) Accumulated Depreciation			
20 ORS and HPUC propose to adjust accumulated depreciation for the complete system depreciation expense. A usage percentage based on the number of customers was used to compute the accumulated depreciation expense.			
Per ORS	(1,702,325)	(848,840)	(853,485)
Per HPUC	(1,530,898)	(774,129)	(756,769)
(I) Construction Work in Progress			
21 ORS and HPUC propose to remove from Construction Work In Progress costs associated with the new groundwater well and elevated water storage tank since these projects are essentially complete.			
Per ORS	(1,116,695)	(1,116,695)	0
Per HPUC	(1,116,695)	(1,116,695)	0
(J) Contributions in Aid of Construction -CIAC			
22 ORS and HPUC propose to increase Contributions in Aid of Construction to reflect the Complete System. ORS included availability fees through the end of the test year as CIAC.			
Per ORS	(2,346,480)	(1,529,740)	(816,740)
Per HPUC	(1,251,000)	(982,000)	(269,000)

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Complete System			
Description	Combined \$	Water \$	Sewer \$
(K) Amortization of Contributions in Aid of Construction			
23 ORS and HPUC propose to increase the amortization of Contributions in Aid of Construction to reflect the complete system. ORS included the amortization of availability fees through the end of the test year.			
Per ORS	581,600	404,800	176,800
Per HPUC	410,240	319,120	91,120
(L) Cash Working Capital			
24 HPUC and ORS propose to adjust Cash Working Capital for as adjusted expenses using the working capital ratio of 1/5 of operating and maintenance expenses. See Audit Exhibit SGS-7.			
Per ORS	37,627	21,094	16,533
Per HPUC	708	708	0
(M) Unamortized Balances			
25 HPUC proposes to include unamortized balances in rate base. ORS proposes only to include the expense portion and not the unamortized balances, creating a sharing of the expenses between the ratepayer and HPUC.			
Per ORS	0	0	0
Per HPUC	45,000	22,500	22,500
(N) Operating Revenues - Proposed Increase			
26 ORS and HPUC propose to increase operating revenues for the complete system number of customers at proposed rates			
Per ORS	546,633	176,946	369,687
Per HPUC	546,633	176,946	369,687
(O) Bad Debt Expenses - Proposed Revenue			
27 ORS and HPUC propose to adjust bad debt expense for the proposed revenue for a complete system.			
Per ORS	10,933	3,539	7,394
Per HPUC	10,936	3,541	7,395
(P) Taxes Other Than Income - Proposed Increase			
28 ORS and HPUC propose to adjust gross receipts taxes for the proposed revenue based on a complete system.			
Per ORS	4,579	1,482	3,097
Per HPUC	6,151	1,991	4,160
(Q) Income Taxes - Proposed Increase			
29 ORS and HPUC propose to reflect state and federal income taxes for the proposed revenue for a complete system			
Per ORS	162,640	22,778	139,862
Per HPUC	150,266	42,217	108,049

Haig Point Utility Company, Inc.
Depreciation Expense Adjustment
Test Year Ended June 30, 2004

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
Water & Sewer Mains	3,425,672	1,377,855	2,047,817
Wells, Supply Main & Appert	353,360	353,360	0
Well #3 - Completed in 2005	377,749	377,749	0
Elevated Storage Tank-Completed in 2005	738,946	738,946	0
Tap Expenses	3,780	2,465	1,315
Outfall Main	66,704	0	66,704
Total	4,966,211	2,850,375	2,115,836
Depreciation (50 years)	2.00%	2.00%	2.00%
	<u>99,325</u>	<u>57,008</u>	<u>42,317</u>
Total Wastewater Treatment Plant	555,864	0	555,864
LESS: Fully Depreciated Assets	(478,429)		(478,429)
Depreciation (32 years)	3.125%	3.125%	3.125%
	<u>2,420</u>	<u>0</u>	<u>2,420</u>
Vehicles	5,043	5,043	0
LESS: Fully Depreciated Assets	(5,043)	(5,043)	0
Depreciation (6 years)	16.66%	16.66%	16.66%
	<u>0</u>	<u>0</u>	<u>0</u>
Total Depreciation Expense - ORS	101,745	57,008	44,737
<u>Amortization of Contributions in Aid of Construction (CIAC)</u>			
Gross CIAC	(2,810,480)	(1,882,740)	(927,740)
Amortization Period (50 years)	2.000%	2.000%	2.000%
CIAC Amortization	<u><u>(56,210)</u></u>	<u><u>(37,655)</u></u>	<u><u>(18,555)</u></u>
<u>Net Depreciation Expense</u>	<u>45,535</u>	<u>19,353</u>	<u>26,182</u>
<u>Less: Depreciation Expense- Per Books</u>	<u>30,296</u>	<u>12,846</u>	<u>17,450</u>
<u>Depreciation Expense Adjustment - ORS</u>	<u><u>15,239</u></u>	<u><u>6,507</u></u>	<u><u>8,732</u></u>

Audit Exhibit SGS-6

**Haig Point Utility Company, Inc.
Computation of Income Taxes
For the Test Year Ended June 30, 2004**

	As Adjusted		
	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating Revenue As Adjusted	445,051	278,799	166,252
Operating Expenses As Adjusted	<u>483,053</u>	<u>368,939</u>	<u>114,114</u>
Net Operating Income Before Taxes	(38,002)	(90,140)	52,138
Less: Annualized Interest Expense	<u>57,086</u>	<u>20,718</u>	<u>36,368</u>
Taxable Income - State	(95,088)	(110,858)	15,770
State Income Taxes @ 5%	<u>0</u>	<u>0</u>	<u>0</u>
Taxable Income - Federal	(95,088)	(110,858)	15,770
Federal Income Taxes - 1st 50,000 @ 15%	0	0	0
Next \$25,000 @25%	0	0	0
Next \$25,000 @34%	<u>0</u>	<u>0</u>	<u>0</u>
Total State and Federal Income Taxes	0	0	0
Less: Income Taxes Per Book	<u>(14,775)</u>	<u>(14,799)</u>	<u>24</u>
Adjustment	<u>14,775</u>	<u>14,799</u>	<u>(24)</u>

	After Proposed Increase		
	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating Revenue After Proposed Increase	991,684	455,745	535,939
Operating Expenses After Proposed Increase	<u>498,565</u>	<u>373,960</u>	<u>124,605</u>
Net Operating Income Before Taxes	493,119	81,785	411,334
Less: Annualized Interest Expense	<u>57,086</u>	<u>20,718</u>	<u>36,368</u>
Taxable Income - State	436,033	61,067	374,966
State Income Taxes @ 5%	<u>21,801</u>	<u>3,053</u>	<u>18,748</u>
Taxable Income - Federal	414,232	58,014	356,218
Federal Income Taxes - 1st 50,000 @ 15%	7,500	1,050	6,450
Next \$25,000 @25%	6,250	875	5,375
Next \$25,000 @34%	8,500	1,190	7,310
\$100,000 - \$335,000 @ 39%	91,650	12,836	78,814
Over \$335,000 @ 34%	<u>26,939</u>	<u>3,773</u>	<u>23,166</u>
Total State and Federal Income Taxes	162,640	22,778	139,862
Less: Income Taxes As Adjusted	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment	<u>162,640</u>	<u>22,778</u>	<u>139,862</u>

Combined Federal Income Taxes allocated between water and sewer based on percentage of Federal Taxable Income.

Haig Point Utility Company, Inc.
Cash Working Capital Allowance
For the Test Year Ended June 30, 2004

	Combined Operations	Water Operations	Sewer Operations
Operating and Maintenance - As Adjusted	368,190	303,778	64,412
General and Administrative - As Adjusted	<u>50,430</u>	<u>32,179</u>	<u>18,251</u>
Total Expenses for Computation	418,620	335,957	82,663
Allowable Rate (1/5 of O & M)	<u>20.00%</u>	<u>20.00%</u>	<u>20.00%</u>
Computed Cash Working Capital - As Adjusted	83,724	67,191	16,533
Cash Working Capital - Per Company	<u>46,097</u>	<u>46,097</u>	<u>0</u>
Cash Working Capital Adjustment - ORS	<u>37,627</u>	<u>21,094</u>	<u>16,533</u>
Cash Working Capital Adjustment - HPUC	<u>708</u>	<u>708</u>	<u>0</u>

Haig Point Utility Company, Inc.
Return On Common Equity
Capital Structure at June 30, 2004

Audit Exhibit SGS-8

Description	Water				After Proposed Increase			
	Capital Structure	Ratio	Rate Base	Income For Return	Embedded Cost/Return	Overall Cost/Return	Embedded Cost/Return	Overall Cost/Return
	\$	%	\$	\$	%	%	%	%
Long-Term Debt	1,923,650	50.00%	276,239	20,718	7.50%	3.75%	7.50%	3.75%
Common Equity	1,923,650	50.00%	276,238	(110,858)	-40.13%	-20.07%	13.86%	6.94%
Totals	3,847,300	100.00%	552,475	(90,140)	-16.32%	-10.69%		

Description	Sewer				After Proposed Increase			
	Capital Structure	Ratio	Rate Base	Income For Return	Embedded Cost/Return	Overall Cost/Return	Embedded Cost/Return	Overall Cost/Return
	\$	%	\$	\$	%	%	%	%
Long-Term Debt	1,923,650	50.00%	484,910	36,368	7.50%	3.75%	7.50%	3.75%
Common Equity	1,923,650	50.00%	484,909	15,770	3.25%	1.63%	48.48%	24.24%
Totals	3,847,300	100.00%	969,819	52,138	5.38%	27.99%		

Description	Combined				After Proposed Increase			
	Capital Structure	Ratio	Rate Base	Income For Return	Embedded Cost/Return	Overall Cost/Return	Embedded Cost/Return	Overall Cost/Return
	\$	%	\$	\$	%	%	%	%
Long-Term Debt	1,923,650	50.00%	761,147	57,086	7.50%	3.75%	7.50%	3.75%
Common Equity	1,923,650	50.00%	761,147	(95,088)	-12.49%	-6.25%	35.92%	17.96%
Totals	3,847,300	100.00%	1,522,294	(38,002)	-2.50%	21.71%		

Haig Point Utility Company, Inc.
Income Statement
Test Year Ended June 30, 2004

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<u>Operating Revenues</u>			
Residential	78,146	39,651	38,495
Commercial	19,225	10,023	9,202
Irrigation	48,749	48,749	
Availability Billing	82,136	41,068	41,068
<u>Total Operating Revenues</u>	<u>228,256</u>	<u>139,491</u>	<u>88,765</u>
<u>Operating Expense</u>			
Wages & Benefits	77,724	20,055	57,669
Repair & Maintenance	79,555	47,990	31,565
Sludge Disposal	0	0	0
Supplies	99	99	0
Outside Services	31,138	22,998	8,140
Telephone	3,670	2,259	1,411
Office Equipment Rental	490	490	0
Bad Debt	27,612	16,874	10,738
Power	28,108	19,419	8,689
Other Operating Expenses	10,445	9,209	1,236
<u>Total</u>	<u>258,841</u>	<u>139,393</u>	<u>119,448</u>
Depreciation	30,296	12,846	17,450
Amortization	0	0	0
Revenue Taxes	0	0	0
Property Taxes	0	0	0
Payroll Taxes	0	0	0
State and Federal Income Taxes	(14,775)	(14,799)	24
<u>Total</u>	<u>15,521</u>	<u>(1,953)</u>	<u>17,474</u>
<u>Total Operating Expenses</u>	<u>274,362</u>	<u>137,440</u>	<u>136,922</u>
<u>Total Operating Income</u>	<u>(46,106)</u>	<u>2,051</u>	<u>(48,157)</u>

Haig Point Utility Company, Inc.
Balance Sheet
June 30, 2004

<u>Assets</u>			
Plant In Service	4,339,598		
Total		4,339,598	
Accumulated Depreciation	(240,082)		
Total		<u>(240,082)</u>	
Net Utility Plant			4,099,516
Construction Work In Process	1,116,695		
Total			1,116,695
Current Assets			
Accounts Receivable - Net	59,708		
Other Current Assets	<u>0</u>		
Total			59,708
Total Assets			<u><u>5,275,919</u></u>

Liabilities and Other Credits

Capital Stock and Retained Earnings			
Common Stock and Paid In Capital	4,637,782		
Retained Earnings	<u>(805,395)</u>		
Total			3,832,387
Current and Accrued Liabilities			
Accounts Payable	405		
Taxes Accrued	14,969		
Advances from Associated Companies	<u>1,046,898</u>		
Total			1,062,272
Contributions In Aid of Construction	464,000		
Total			464,000
Accumulated Amortization of CIAC	(82,740)		
Total			(82,740)
			<u><u>5,275,919</u></u>

Haig Point Utility Company, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended June 30, 2004
Combined - Present Customers

Description	Per Company Books \$	Accounting & Pro Forma Adjustments \$	As Adjusted \$	Effect of Proposed Increase \$	After Proposed Increase \$
<u>Operating Revenues:</u>					
Water Service Revenues	98,423	0 (A)	98,423	65,074 (N)	163,497
Sewer Service Revenues	47,697	0 (A)	47,697	101,618 (N)	149,315
Availability Revenues - W & S	82,136	(82,136) (A)	0	0	0
<u>Total Operating Revenues</u>	<u>228,256</u>	<u>(82,136)</u>	<u>146,120</u>	<u>166,692</u>	<u>312,812</u>
<u>Operating Expenses:</u>					
Operating & Maintenance Expenses	185,387	(13,722) (B)	171,665	0	171,665
Administrative & General Expenses	73,454	(29,003) (C)	44,451	3,334 (O)	47,785
Depreciation & Amortization Expenses	30,296	(17,414) (D)	12,882	0	12,882
Taxes Other Than Income	0	1,827 (E)	1,827	1,396 (P)	3,223
Income Taxes	(14,775)	14,775 (F)	0	8,962 (Q)	8,962
<u>Total Operating Expenses</u>	<u>274,362</u>	<u>(43,537)</u>	<u>230,825</u>	<u>13,692</u>	<u>244,517</u>
<u>Total Operating Income</u>	<u>(46,106)</u>	<u>(38,599)</u>	<u>(84,705)</u>	<u>153,000</u>	<u>68,295</u>
Customer Growth	0	0	0	5,689	5,689
<u>Net Income for Return</u>	<u>(46,106)</u>	<u>(38,599)</u>	<u>(84,705)</u>	<u>158,689</u>	<u>73,984</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	4,359,264	(2,277,603) (G)	2,081,661	0	2,081,661
Accumulated Depreciation	(240,082)	11,700 (H)	(228,382)	0	(228,382)
Net Plant in Service	4,119,182	(2,265,903)	1,853,279	0	1,853,279
Construction Work In Progress	1,116,695	(1,116,695) (I)	0	0	0
Contributions in Aid of Construction	(464,000)	(1,095,480) (J)	(1,559,480)	0	(1,559,480)
Accumulated Amortization of CIAC	82,740	581,600 (K)	664,340	0	664,340
Cash Working Capital	46,097	(2,874) (L)	43,223	0	43,223
Unamortized Balances	0	0 (M)	0	0	0
<u>Total Rate Base</u>	<u>4,900,714</u>	<u>(3,899,352)</u>	<u>1,001,362</u>	<u>0</u>	<u>1,001,362</u>
<u>Return on Rate Base</u>	<u>-0.94%</u>		<u>-8.46%</u>		<u>7.39%</u>
<u>Interest Expense</u>	<u>0</u>		<u>37,551</u>		<u>37,551</u>
<u>Operating Margin</u>	<u>-20.20%</u>		<u>-83.67%</u>		<u>11.65%</u>

Haig Point Utility Company, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended June 30, 2004
Water - Present Customers

Description	Per Company Books \$	Accounting & Pro Forma Adjustments \$	As Adjusted \$	Proposed Increase \$	After Proposed Increase \$
Operating Revenues:					
Water Service Revenues	98,423	0 (A)	98,423	65,074 (N)	163,497
Availability Revenues	41,068	(41,068) (A)	0	0	0
Total Operating Revenues	139,491	(41,068)	98,423	65,074	163,497
Operating Expenses:					
Operating & Maintenance Expenses	87,464	26,631 (B)	114,095	0	114,095
Administrative & General	51,929	(23,357) (C)	28,572	1,301 (O)	29,873
Depreciation & Amortization Expenses	12,846	(7,178) (D)	5,668	0	5,668
Taxes Other Than Income	0	838 (E)	838	545 (P)	1,383
Income Taxes	(14,799)	14,799 (F)	0	0 (Q)	0
Total Operating Expenses	137,440	11,733	149,173	1,846	151,019
Total Operating Income	2,051	(52,801)	(50,750)	63,228	12,478
Customer Growth	0	0	0	1,039	1,039
Net Income for Return	2,051	(52,801)	(50,750)	64,267	13,517
Original Cost Rate Base:					
Gross Plant in Service	1,731,215	(562,207) (G)	1,169,008	0	1,169,008
Accumulated Depreciation	(106,504)	12,824 (H)	(93,680)	0	(93,680)
Net Plant in Service	1,624,711	(549,383)	1,075,328	0	1,075,328
Construction Work In Progress	1,116,695	(1,116,695) (I)	0	0	0
Contributions in Aid of Construction	(353,000)	(547,740) (J)	(900,740)	0	(900,740)
Accumulated Amort. of CIAC	63,150	404,800 (K)	467,950	0	467,950
Cash Working Capital	46,097	(17,564) (L)	28,533	0	28,533
Unamortized Balances	0	0 (M)	0	0	0
Total Rate Base	2,497,653	(1,826,582)	671,071	0	671,071
Return on Rate Base	0.08%		-7.56%		2.01%
Interest Expense	0		25,165		25,165
Operating Margin	1.47%		-77.13%		-7.12%

Haig Point Utility Company, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended June 30, 2004
Sewer - Present Customers

Description	Per Company Books \$	Accounting & Pro Forma Adjustments \$	As Adjusted \$	Proposed Increase \$	After Proposed Increase \$
<u>Operating Revenues:</u>					
Availability Revenues	47,697	0 (A)	47,697	101,618 (N)	149,315
	41,068	(41,068) (A)	0	0	0
<u>Total Operating Revenues</u>	88,765	(41,068)	47,697	101,618	149,315
<u>Operating Expenses:</u>					
Operating & Maintenance Expenses	97,923	(40,353) (B)	57,570	0	57,570
Administrative & General	21,525	(5,646) (C)	15,879	2,032 (O)	17,911
Depreciation & Amortization Expenses	17,450	(10,236) (D)	7,214	0	7,214
Taxes Other Than Income	0	989 (E)	989	851 (P)	1,840
Income Taxes	24	(24) (F)	0	8,962 (Q)	8,962
<u>Total Operating Expenses</u>	136,922	(55,270)	81,652	11,845	93,497
<u>Total Operating Income</u>	(48,157)	14,202	(33,955)	89,773	55,818
Customer Growth	0	0	0	4,650	4,650
<u>Net Income for Return</u>	(48,157)	14,202	(33,955)	94,423	60,468
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	2,628,049	(1,715,397) (G)	912,652	0	912,652
Accumulated Depreciation	(133,578)	(1,124) (H)	(134,702)	0	(134,702)
Net Plant in Service	2,494,471	(1,716,521)	777,950	0	777,950
Construction Work In Progress	0	0 (I)	0	0	0
Contributions in Aid of Construction	(111,000)	(547,740) (J)	(658,740)	0	(658,740)
Accumulated Amortization of CIAC	19,590	176,800 (K)	196,390	0	196,390
Cash Working Capital	0	14,690 (L)	14,690	0	14,690
Unamortized Balances	0	0 (M)	0	0	0
<u>Total Rate Base</u>	2,403,061	(2,072,771)	330,290	0	330,290
<u>Return on Rate Base</u>	-2.00%		-10.28%		18.31%
<u>Interest Expense</u>	0		12,386		12,386
<u>Operating Margin</u>	-54.25%		-97.16%		32.20%

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Present Customers			
Description	Combined \$	Water \$	Sewer \$
(A) Operating Revenues			
As Adjusted			
1 HPUC proposes to adjust for complete system number of customers at present rates			
Per ORS	0	0	0
Per HPUC	298,931	180,376	118,555
2 HPUC proposes to remove Availability Billing for the complete system. ORS proposes to remove Availability Fees and reclass as Contributions in Aid of Construction.			
Per ORS	(82,136)	(41,068)	(41,068)
Per HPUC	(82,136)	(41,068)	(41,068)
(B) Operating and Maintenance			
3 ORS proposes to adjust salary expense to reflect the 60/40 split between HPUC and Melrose Utility Company and to adjust for benefits expense which should have been allocated to Melrose Utility Company.			
Per ORS	(14,248)	29,097	(43,345)
Per HPUC	0	0	0
4 ORS proposes to adjust operating and maintenance expenses to reflect 60/40 split with Melrose Utility Company, Inc.			
Per ORS	4,307	0	4,307
Per HPUC	0	0	0
5 HPUC proposes to increase the level of wages for the current 2 employees to reflect the wages of 6 employees at test period costs at complete system. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	155,449	40,110	115,339
6 HPUC proposes to increase the level of repair and maintenance costs for plant facilities by the percentage of plant additions. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	30,955	30,955	0
7 HPUC proposes to increase the level of operating supply costs for increased system demand. ORS reflects this expense as used on a present customer basis.			
Per ORS	0	0	0
Per HPUC	152	152	0
8 HPUC proposes to increase the level of office equipment rental for increased number of customers. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	1,349	1,349	0

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Present Customers			
<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
9 HPUC proposes to increase the level of Power Costs for increased system demand. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	49,692	29,826	19,866
10 ORS proposes to remove expenses associated with installing taps. These costs are considered capital expenditures and are included in plant in service.			
Per ORS	(3,781)	(2,466)	(1,315)
Per HPUC	0	0	0
Total Operating and Maintenance	(13,722)	26,631	(40,353)
(C) General and Administrative			
11 HPUC proposes to adjust Bad Debt Expense to reflect 2.0% of complete system revenue under present rates. ORS proposes to adjust bad debt expense to reflect 2.0% of revenue for current customers under current rates.			
Per ORS	(24,690)	(14,906)	(9,784)
Per HPUC	(18,711)	(11,298)	(7,413)
12 ORS and HPUC propose to reflect the amortization of rate case expenses. ORS proposes a 5-year amortization of actual year to date expenses and HPUC proposes a 4-year amortization of estimated expenses.			
Per ORS	8,277	4,138	4,138
Per HPUC	20,000	10,000	10,000
13 ORS proposes to remove nonallowable legal expenses from the test year.			
Per ORS	(12,590)	(12,590)	0
Per HPUC	0	0	0
Total General and Administrative	(29,003)	(23,357)	(5,646)
(D) Depreciation and Amortization Expense			
14 HPUC proposes to reflect the annual depreciation for complete system plant in service. ORS proposes depreciation expense for the test year. ORS applies the customer utilization factor to allocate depreciation expense to current customers. Depreciation Expense was reduced by the Amortization of CIAC.			
Per ORS	(17,414)	(7,178)	(10,236)
Per HPUC	85,001	44,113	40,888
(E) Taxes Other Than Income			
15 HPUC proposes to reflect the revenue taxes of 1.12528% on pro forma revenue under present rates. ORS proposes to reflect revenue taxes on present rates using the latest gross receipts factor of 0.83772%.			
Per ORS	1,224	825	400
Per HPUC	5,008	3,137	1,871

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Present Customers

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
16 HPUC proposes to reflect property taxes at 1.0% of pro forma plant costs. ORS proposes to adjust for actual property taxes assessed on real property for HPUC			
Per ORS	603	14	589
Per HPUC	54,759	28,479	26,280
17 HPUC propose to reflect payroll taxes for the proposed new employees. ORS reflects this expense as used on a present customer basis.			
Per ORS	0	0	0
Per HPUC	17,838	4,603	13,235
Total Taxes Other Than Income	1,827	838	989

(F) Income Taxes

18 HPUC and ORS propose to adjust for state and federal income taxes for as adjusted operations. See computation of Income Taxes Schedule in Audit Exhibit SGS-11.

Per ORS	14,775	14,799	(24)
Per HPUC	(89,699)	(11,127)	(78,572)

(G) Plant In Service

19 ORS and HPUC propose to increase plant in service for the new groundwater well, elevated water storage tank, truck and wastewater treatment improvements.

Per ORS	1,167,853	1,124,203	43,650
Per HPUC	1,116,695	1,116,695	0

20 ORS proposes to remove plant in service based on most recent system utilization factors of 40.94% for water and 34.16% for sewer. See Depreciation Schedule in Audit Exhibit SGS-11.

Per ORS	(3,445,456)	(1,686,410)	(1,759,047)
Per HPUC	0	0	0
Total Plant In Service	(2,277,603)	(562,207)	(1,715,397)

(H) Accumulated Depreciation

21 HPUC proposes to adjust accumulated depreciation for the complete system depreciation expense. ORS proposes to adjust accumulated depreciation expense for usage percentage based on the number of customers through the test year.

Per ORS	11,700	12,824	(1,124)
Per HPUC	(1,530,898)	(774,129)	(756,769)

(I) Construction Work in Progress

22 ORS and HPUC propose to remove from Construction Work in Progress costs associated with the new groundwater well and elevated water storage tank since these projects are essentially completed.

Per ORS	(1,116,695)	(1,116,695)	0
Per HPUC	(1,116,695)	(1,116,695)	0

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Present Customers			
Description	Combined \$	Water \$	Sewer \$
(J) Contributions in Aid of Construction -CIAC			
23 HPUC proposes to increase Contributions in Aid of Construction to reflect the Complete System. ORS proposes to reduce rate base by cumulative test year availability fees which are considered CIAC			
Per ORS	(1,095,480)	(547,740)	(547,740)
Per HPUC	(1,251,000)	(982,000)	(269,000)
(K) Amortization of Contributions in Aid of Construction			
24 HPUC propose to increase the amortization of Contributions in Aid of Construction to reflect the complete system. ORS proposes to increase the amortization for cumulative availability fees			
Per ORS	581,600	404,800	176,800
Per HPUC	410,240	319,120	91,120
(L) Cash Working Capital			
25 HPUC and ORS propose to adjust Cash Working Capital for as adjusted expenses using the working capital ratio of 1/5 of operating and maintenance expenses. See Attached Exhibit for Cash Working Capital Adjustment			
Per ORS	(2,874)	(17,564)	14,690
Per HPUC	708	708	0
(M) Unamortized Balances			
26 HPUC proposes to include unamortized balances in rate base. ORS proposes only to include the expense portion and not the unamortized balances, creating a sharing of the expenses between the ratepayer and HPUC			
Per ORS	0	0	0
Per HPUC	45,000	22,500	22,500
(N) Operating Revenues - Proposed Increase			
27 HPUC proposes to increase operating revenues for the complete system number of customers at proposed rates. ORS proposes to increase operating revenues for present customers at proposed rates.			
Per ORS	166,692	65,074	101,618
Per HPUC	546,633	176,946	369,687
(O) Bad Debt Expenses - Proposed Revenue			
28 HPUC proposes to adjust bad debt expense for the proposed revenue for a complete system. ORS proposes to adjust for proposed revenue based on current customers.			
Per ORS	3,334	1,301	2,032
Per HPUC	10,936	3,541	7,395

Haig Point Utility Company, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2004

Present Customers			
Description	Combined	Water	Sewer
	\$	\$	\$
(P) Taxes Other Than Income - Proposed Increase			
29 HPUC proposes to adjust gross receipts taxes for the proposed revenue based on a complete system. ORS proposes to adjust taxes for the proposed increase for present customers.			
Per ORS	1,396	545	851
Per HPUC	6,151	1,991	4,160
(Q) Income Taxes - Proposed Increase			
30 HPUC proposes to reflect state and federal income taxes for the proposed revenue for a complete system. ORS proposes to reflect income taxes for the proposed revenue for present customers			
Per ORS	8,962	0	8,962
Per HPUC	150,266	42,217	108,049

Haig Point Utility Company, Inc.
Depreciation Expense Adjustment
Test Year Ended June 30, 2004

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
Water & Sewer Mains	3,425,672	1,377,855	2,047,817
Wells, Supply Main & Appert	353,360	353,360	0
Well #3 - Completed in 2005	377,749	377,749	0
Elevated Storage Tank-Completed in 2005	738,946	738,946	0
Tap Expenses	3,780	2,465	1,315
Outfall Main	66,704	0	66,704
Total	4,966,211	2,850,375	2,115,836
Depreciation (50 years)	2.00%	2.00%	2.00%
	99,325	57,008	42,317
Total Wastewater Treatment Plant	555,864	0	555,864
LESS: Fully Depreciated Assets	0	0	0
Depreciation (32 years)	3.125%	3.125%	3.125%
	17,371	0	17,371
Vehicles	5,043	5,043	0
LESS: Fully Depreciated Assets	0	0	0
Depreciation (6 years)	16.66%	16.66%	16.66%
	840	840	0
Total Depreciation Expense - ORS	117,536	57,848	59,688
Capacity Adj. - Based on Customer Growth		40.94%	34.16%
Total Adjusted Depreciation Expense	44,072	23,683	20,389
<u>Amortization of Contributions in Aid of Construction (CIAC)</u>			
Gross CIAC-Per Book Tap Fees & Availability	(1,559,480)	(900,740)	(658,740)
Fees to End of Test Year			
Amortization Period (50 years)	2.000%	2.000%	2.000%
	(31,190)	(18,015)	(13,175)
CIAC Amortization	(31,190)	(18,015)	(13,175)
Net Depreciation Expense	12,882	5,668	7,214
Less: Depreciation Expense- Per Books	30,296	12,846	17,450
Depreciation Expense Adjustment - ORS	(17,414)	(7,178)	(10,236)
<u>Plant Capacity Adjustment</u>			
Plant In Service			
Water	4,966,211	2,850,375	2,115,836
Wastewater Treatment Plant	555,864	0	555,864
Vehicle	5,043	5,043	0
Total Plant	5,527,118	2,855,418	2,671,700
Capacity Adj. - Based on Customer Growth		40.94%	34.16%
Less: Current Plant based on Customer Growth	2,081,661	1,169,008	912,653
Reduce Plant for Capacity	(3,445,457)	(1,686,410)	(1,759,047)

Audit Exhibit SGS-11

**Haig Point Utility Company, Inc.
Computation of Income Taxes
For the Test Year Ended June 30, 2004**

	As Adjusted		
	Combined Operations	Water Operations	Sewer Operations
Operating Revenue As Adjusted	146,120	98,423	47,697
Operating Expenses As Adjusted	<u>230,825</u>	<u>149,173</u>	<u>81,652</u>
Net Operating Income Before Taxes	(84,705)	(50,750)	(33,955)
Less: Annualized Interest Expense	<u>37,551</u>	<u>25,165</u>	<u>12,386</u>
Taxable Income - State	(122,256)	(75,915)	(46,341)
State Income Taxes @ 5%	<u>0</u>	<u>0</u>	<u>0</u>
Taxable Income - Federal	0	0	0
Federal Income Taxes - 1st 50,000 @ 15%	0	0	0
Next \$25,000 @25%	0	0	0
Next \$25,000 @34%	0	0	0
Total State and Federal Income Taxes	0	0	0
Less: Income Taxes Per Book	<u>(14,775)</u>	<u>(14,799)</u>	<u>24</u>
Adjustment	<u>14,775</u>	<u>14,799</u>	<u>(24)</u>
	After Proposed Increase		
	Combined Operations	Water Operations	Sewer Operations
Operating Revenue After Proposed Increase	312,812	163,497	149,315
Operating Expenses After Proposed Increase	<u>235,555</u>	<u>151,020</u>	<u>84,535</u>
Net Operating Income Before Taxes	77,257	12,477	64,780
Less: Annualized Interest Expense	<u>37,551</u>	<u>25,165</u>	<u>12,386</u>
Taxable Income - State	39,706	(12,688)	52,394
State Income Taxes @ 5%	<u>2,620</u>	<u>0</u>	<u>2,620</u>
Taxable Income - Federal	37,086	(12,688)	49,774
Federal Income Taxes - 1st 50,000 @ 15%	6,342	0	6,342
Next \$25,000 @25%	0	0	0
Next \$25,000 @34%	0	0	0
\$100,000 - \$335,000 @ 39%	0	0	0
Over \$335,000 @ 34%	<u>0</u>	<u>0</u>	<u>0</u>
Total State and Federal Income Taxes	8,962	0	8,962
Less: Income Taxes As Adjusted	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment	<u>8,962</u>	<u>0</u>	<u>8,962</u>

Combined Federal Income Taxes allocated between water and sewer based on percentage of Federal Taxable Income.

Audit Exhibit SGS-11

**Haig Point Utility Company, Inc.
Customer Growth Computation
Test Year Ended June 30, 2004**

	(1)	(2)	(3)
Combined Operations:			
<u>Description</u>	<u>As</u>	<u>Effect of</u>	<u>After</u>
	<u>Adjusted</u>	<u>Proposed</u>	<u>Increase</u>
	\$	\$	\$
Water Customer Growth	(4,227)	5,267	1,039
Sewer Customer Growth	(2,828)	7,478	4,650
Combined Customer Growth	(7,055)	12,745	5,689

Number of Customers:

Beginning	396	Formula:			
Ending	468	Ending - Average	=	36	= 8.33%
Average	432	Average		432	

Water Operations:

Net Operating Income	(50,750)	63,228	12,478
Growth Factor	8.33%	8.33%	8.33%
Customer Growth	(4,227)	5,267	1,039

Number of Customers:

Beginning	198	Formula:			
Ending	234	Ending - Average	=	18	= 8.33%
Average	216	Average		216	

Sewer Operations:

Net Operating Income	(33,955)	89,773	55,818
Growth Factor	8.33%	8.33%	8.33%
Customer Growth	(2,828)	7,478	4,650

Number of Customers:

Beginning	198	Formula:			
Ending	234	Ending - Average	=	18	= 8.33%
Average	216	Average		216	

Note: Combined Customer Growth equals Water plus Sewer Customer Growth

Haig Point Utility Company, Inc.
Cash Working Capital Allowance
For the Test Year Ended June 30, 2004

	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
Operating and Maintenance - As Adjusted	171,665	114,095	57,570
General and Administrative - As Adjusted	<u>44,451</u>	<u>28,572</u>	<u>15,879</u>
Total Expenses for Computation	216,116	142,667	73,449
Allowable Rate (1/5 of O & M)	<u>20.00%</u>	<u>20.00%</u>	<u>20.00%</u>
Computed Cash Working Capital - As Adjusted	43,223	28,533	14,690
Cash Working Capital - Per Company	<u>46,097</u>	<u>46,097</u>	<u>0</u>
Cash Working Capital Adjustment - ORS	<u>(2,874)</u>	<u>(17,564)</u>	<u>14,690</u>
Cash Working Capital Adjustment - HPUC	<u>708</u>	<u>708</u>	<u>0</u>

Haig Point Utility Company, Inc.
Return On Common Equity
Capital Structure at June 30, 2004

Description	Capital Structure	Ratio	As Adjusted			After Proposed Increase			Income For Return
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	
		%	\$	%	%	\$	%	%	\$
Long-Term Debt	1,923,650	50.00%	335,536	7.50%	3.75%	335,536	7.50%	3.75%	25,165
Common Equity	1,923,650	50.00%	335,536	-22.62%	-11.31%	335,535	-3.47%	-1.73%	(11,648)
Totals	3,847,300	100.00%	671,071		-7.56%	671,071		2.02%	13,517

Description	Capital Structure	Ratio	As Adjusted			After Proposed Increase			Income For Return
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	
		%	\$	%	%	\$	%	%	\$
Long-Term Debt	1,923,650	50.00%	165,145	7.50%	3.75%	165,145	7.50%	3.75%	12,386
Common Equity	1,923,650	50.00%	165,145	-28.06%	-14.03%	165,145	29.12%	14.56%	48,082
Totals	3,847,300	100.00%	330,290		-10.28%	330,290		18.31%	60,468

Description	Capital Structure	Ratio	As Adjusted			After Proposed Increase			Income For Return
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	
		%	\$	%	%	\$	%	%	\$
Long-Term Debt	1,923,650	50.00%	500,681	7.50%	3.75%	500,681	7.50%	3.75%	37,551
Common Equity	1,923,650	50.00%	500,681	-24.42%	-12.21%	500,681	7.28%	3.64%	36,433
Totals	3,847,300	100.00%	1,001,362		-8.46%	1,001,362		7.39%	73,984